OFFICE OF GOVERNMENT AFFAIRS

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Via electronic submission via regs.comments@federalreserve.gov

Federal Reserve Board of Governors
Constitution Ave NW &, 20th St NW
Washington, DC 20551

RE: Main Street Lending Program – Main Street Lending Program Nonprofit Organization New Loan facility (NONLF) and Nonprofit Organization Expanded Loan Facility (NOELF)

On behalf of March of Dimes, the leading non-profit organization fighting for the health of all moms and babies, thank you for the opportunity to submit comments on proposals to expand the Main Street Lending program to nonprofit organizations through a new loan facility. March of Dimes promotes the health of women, children and families across the life course, from birth through adolescence and the childbearing years, with an emphasis on preconception, prenatal, interconception and infant health. Ensuring that women, infants and families have access to quality care is essential to achieving our goals.

At March of Dimes, we have built a legacy working to level the playing field for all moms and babies, no matter their age, socio-economic background or demographics. We support moms throughout their pregnancy advocating for policies that prioritize their health. We support radical improvements to the care they receive, and we pioneer research to find solutions to the biggest health threats to moms and babies.

During the COVID-19 pandemic, March of Dimes has offered a variety of robust product and services while experiencing financial hard times due to significantly reduced fundraising capacity that has forced employee furloughs and an across-the-board salary cut for all its employees. Despite these operational challenges, we moved quickly in March to launch the *Mom and Baby COVID-19 Intervention and Support Fund*. The Fund is supporting efforts to ensure families stay informed about COVID-19, therapeutics and a vaccine are developed with moms and babies top of mind, and interventions are distributed so everyone across our country has access. We have offered education resources on COVID-19 through a series of webinar events providing the public with critical information on a range of topics impacting their lives during the pandemic, including understanding the risks to pregnancy, maternal mental health, disparities in health care during COVID-19, and access to birthing services, among other emerging issues.

We appreciate the Federal Reserve's efforts to develop this new loan program for nonprofits trying to weather the economic downturn while continuing to effectively carrying out their missions and working to respond to the COVID-19 pandemic in communities across the country. However, in order for this program to be truly accessible it must be more tailored to the unique operations and finances of nonprofit organizations than as currently devised. This proposal is aimed more at transactional nonprofits such as hospitals and institutions of higher education than at nonprofits like March of Dimes that have a larger reliance on donations from the public to support their missions. Indeed, we pride ourselves on offering our programs and services at no charge. Because of these inherent differences in how nonprofits operate, we believe many of the financial requirements included in this proposal simply are not applicable to organizations that rely predominantly on donations from the public. With that in mind, March of Dimes respectfully requests the Federal Reserve to address the concerns and proposed changes outlined below.

Congress Must Act to Ensure Mid-Sized Nonprofits are Eligible for Loan Forgiveness
The most significant issue with the program is the lack of loan forgiveness for midsized nonprofits. We understand that this is an issue that Congress must address to grant the Federal Reserve additional authority to make the new loans forgivable. While it is a welcome development to see the Federal Reserve making its Main Street lending program available to some nonprofits, this assistance still falls short of what is most needed by nonprofit organizations – a provision that makes these loans forgivable.

In this critical time, nonprofits have stepped up to meet the unprecedented level of need in our country due to the COVID-19 pandemic. Even though they face many of the same economic challenges as other industries, nonprofits are not shutting down. Rather, they are straining to meet increasing demands in our communities on the frontlines, caring for the sick, feeding families, and keeping our communities connected. Furthermore, they will play an integral role as our nation's recovery – offering education and support to expecting mothers and their families, providing child care, job training, and other supportive services.

Charitable nonprofits of all sizes and focus areas are struggling to maintain mission-critical operations despite enormous economic challenges. Data released by Independent Sector shows that nonprofits with between 500 to 5,000 employees, key to scaling relief efforts across the nation, have been severely impacted by this health and economic crisis. When asked "What types of additional assistance would be most helpful to your organization?" organizations overwhelmingly (92% of responses) suggested government support in the form of forgivable loans. Smaller nonprofits throughout the country have been hit equally hard.

Nonprofit organizations need funding so they can continue to meet the needs of their communities. Many charitable organizations do not have steady streams of commercial income and have little capacity for loan and interest repayment. Furthermore, nonprofits are the third largest employment sector and many hope to hire more workers as their organizations recover. America cannot afford to leave out such a vital part of the economy.

Recommendation: Congress must recognize the vital services nonprofits provide to communities and the economy by including loan forgiveness in the next round of COVID-19 relief legislation.

Limiting Loans to Mid-Size Nonprofits with Less than 30% of Revenue from Donations Disqualifies Many in Charitable Sector
The Federal Reserve's criteria that organizations must have revenues from donations that are less than 30% disqualify many charities, including March of Dimes. Overall, this loan facility seems more applicable to for-profit entities, but not most charitable organizations. **March of Dimes received 90% of its revenues from donations in 2019**. In fact, the IRS includes a public support test on the annual Form 990 that requires nonprofits to maintain a rate above 33⅓%. This is done to ensure a nonprofits are relying more heavily on donations from the public than other funding sources like investment income. (See Form 990 Schedule A)[1]

[1] More information available at: https://www.irs.gov/forms-pubs/about-schedule-a-form-990-or-990-ez

We raise money and receive donations from the public, foundations, and corporations to fund our lifesaving research to level the playing field so all moms and babies are healthy. These donations also fund resources and programs that help moms before, during, and after pregnancy, such as our NICU Family Support programs that offer information and comfort to families in the Neonatal Intensive Care Unit ("NICU"). In addition, donations allow us to educate the public and families so they can have the healthiest possible pregnancies through educational health content and Supportive Pregnancy Care, our group prenatal care program.

We are able to offer these services because of the donations we receive from the public, and the revenue that we generate goes back into carrying out our mission through our programs. Charitable organizations play a fundamental role in strengthening civil society. Our organization provides vital services for pregnant women, babies, and families and the nation, and we pride ourselves on the donations we receive rooted in the trust and support the public has placed in March of Dimes and our mission to improve the health of all moms and babies.

Recommendation: Eliminate the requirement that no more than 30% of an organization's 2019 revenues come from donations, and instead make 501c(3) organizations that otherwise meet the employee size eligible.

Make Loan Terms More Favorable to Charitable Organizations
The draft nonprofit loan facility imposes certain liquidity, asset, and reserve requirements that are not required in Main Street New Loan Facilities available to for-profit businesses. Nonprofit organizations typically provide services with low-profit margins. Indeed, social service organizations report an average aggregate margin of 1.5%.

According to a recent report by Seachange Capital Partners, the median social services nonprofit has a margin of 1.0%, receives 3.6% of its revenue from philanthropy (including investment income), has total financial assets (including endowments and other assets that are subject to legal restrictions) equal to 1.9 months of expenses, and operating reserves of less than one month of expenses. Less than 20% of large nonprofits have 6 months or more of operating reserves, a widely accepted standard for "financial strength" for nonprofits. Social services organizations are the most fragile, with fewer than 10% reaching this standard.

Recommendation: Recognizing the unique nature of nonprofit operations and their importance in continuing to provide vital services as partners on the front lines of the COVID-19 crisis, we urge the Federal Reserve to eliminate borrower requirements #7 and #8. If this is not possible, we alternatively ask that the requirements be lessened significantly to reflect the economic realities of nonprofit operations, for example by requiring only 30 days cash on hand, and eliminating the specific 65% debt ratio requirement and instead allow a statement of explanation for debt that may be of concern as it relates to credit worthiness.

We are also concerned that certain eligible loan features are too onerous for nonprofit organizations and are less favorable than those offered in other government programs. Specifically, the interest rate of LIBOR plus 300 basis points is too high. In addition, the imposition of loan origination and service fees adds to the cost. Finally, the 70% balloon payment at the end of the fifth year of the loan would be difficult for many nonprofits, unless provided an opportunity to refinance such loans at low rates.

Recommendation: Revisit the loan terms including interest rate and balloon payments and recommend the lowest permissible rate such as the 0.5% rate initially proposed for PPP loans. We also urge some flexibility in the balloon payment requirement to afford the opportunity for renegotiation. Extending the 5-year amortization to seven years could lessen the balloon payment. We request that borrowers have access to engage with derivatives (change to a fixed rate) without the minimum swap requirements.

The Ratio of Adjusted 2019 Earnings before "EBIDA" Should Be Revised
One of the eligibility criteria for borrowers (#6) is that they must have "a ratio of adjusted 2019 earnings before interest, depreciation, and amortization ("EBIDA") to unrestricted 2019 operating revenue, greater than or equal to 5%." In the context of nonprofit operations, this threshold is too high and would make many, if not most, nonprofits ineligible based on these criteria alone, which seems written more in the context of for-profit businesses as opposed to nonprofit organizations. **This criteria would make March of Dimes ineligible for the new loan facility based on our 2019 earnings before EBIDA.**

It may be prudent and necessary to have a positive ratio of adjusted earnings; however, nonprofits generally run on a small margin, both out of necessity and also so as to not leave excess surpluses that could be used for fulfilling their missions. Moreover, at times a nonprofit may have a planned and manageable deficit as part of a strategic plan—a negative ratio at one isolated point is not always an indication of instability.

Furthermore, the footnotes for criteria #6 clarify that "The Eligible Lender should calculate operating revenue as unrestricted operating revenue, excluding funds committed to be spent on capital…" Many nonprofits have "restricted revenue" through grants and contracts built into their operating budgets. Excluding this revenue would compound the problem of meeting the 5% ratio. Although it would be sensible to exclude contributions raised for a "capital campaign," excluding other capital funds included in an annual budget for maintenance and planned upgrades would further decrease the required ratio.

Recommendation: The 5% requirement should be reduced to zero, or eliminated. In addition, a statement of explanation of a deficit should be allowed so that a negative ratio does not mean automatic ineligibility for a nonprofit borrower. Finally, further clarification on the calculation methodology — in the context of nonprofit operating budgets— is needed in regard to both restricted funding from grants in annual operating budgets, as well as capital funds for improvements that are part of an annual operating budget. This clarification would allow noted revenues to remain in calculation to ease the restriction and not further restrict eligibility.

"Reasonable Efforts" Regarding Employee Retention Require Further Clarification
The description of "Retaining Employees" in the draft term sheet requires refinement if the Federal Reserve expects nonprofits to take advantage of this facility. We refer the Federal Reserve to the analysis of the National Council of Nonprofits on the issue of employee retention, and recommend the following:

Recommendation: "Reasonable efforts" should be interpreted in the totality of the circumstances, taking into consideration not only the general economic environment in the community or communities in with the borrower operates, but also factors such as workforce, fundraising ability, revenue-generating activities, and overall demand for the services and programs the organization provides. One option would be to add the qualifier "mission-based" before "reasonable efforts."

Recommendation: The terms "maintain its payroll" and "retain its employees" are vague and need further refinement. We ask the Federal Reserve to make clear that nonprofits participating in the Main Street loan program *generally* should endeavor to pay staff at the same or increased income levels and should act in good faith to keep staffing levels (measured on the basis of full-time equivalents) at the same or increased levels, both for the duration of the loan. It is also important that the loan documents expressly state that the employee retention provision begins on the date that loan funding is received by the borrower rather than at an earlier date.

Recommendation: We ask that the Federal Reserve adopt safe harbors of other loan programs and state clearly that nonprofit borrowers will not be penalized under the employee retention provision for the decision of employees to decline offers of rehire, or for those who are fired for cause, voluntarily resign, or voluntarily request a reduced schedule during the time that the loan is outstanding.

Limitation of 50-Employee Minimum Should Be Removed

The term sheet for the proposed nonprofit loan facility imposes a size minimum that is not imposed in the Main Street New, Priority, or Expanded Loan Facilities for for-profit businesses. There is no explanation why the Federal Reserve is proposing that nonprofits with fewer than 50 employees should not be eligible for Main Street loans for which their small business counterparts of equal size could secure lending support. While this criteria would not negatively impact March of Dimes directly, we are concerned this employee floor would disqualify many smaller, community-based nonprofit groups responding to COVID-19.

Recommendation: The 50-employee floor should be removed.

Additional Recommendations and Requests for Clarification

March of Dimes respectfully requests the Federal Reserve clarify the following issues in its final expansion notice.

- **Endowment:** What resources should be included in endowment calculations? Does it include restricted endowments? Does it extend to include cash on hand?
- **Collateral:** Flexibility on collateral is requested. The loan should be able to be approved with no more than 50% Loan to Value (LTV) if collateral is needed.
- **Other Debts**: The proposal requires that borrowers, "refrain from repaying the principal balance of, or paying any interest on, any debt until the Eligible Loan is repaid in full, unless the debt or interest payment is mandatory and due." We request that this exclude lines of credit and other debt that are assumed to provide financial liquidity related to the impact of COVID-19.

March of Dimes appreciates the opportunity to offer our feedback in response the Nonprofit Organization Loan Facilities. If we can provide further information or otherwise be of assistance, please contact KJ Hertz, Director, Federal Affairs (khertz@marchofdimes.org, 571-969-8655).

Sincerely,

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