

## US Treasury Extends \$700 Million Loan to YRC Worldwide Inc. under CARES Act Provision

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Original post [here](#).

On [July 1](#), the US Treasury announced it would make a \$700 million loan to YRC Worldwide Inc., a heavyweight equipment transportation [company](#) that was deemed by the US Secretary of Defense to be critical to national security. Treasury will receive a 29.6% equity stake in the company in connection with the loan.

Under the CARES Act, the [Department of the Treasury](#) is authorized to make loans, loan guarantees, or other investments in eligible businesses that are facing liquidity constraints as a result of COVID-19. Section 4003(b) of the CARES Act allocated \$17 billion for businesses critical to maintaining national security.

YRC was determined to be critical to maintaining national security, as it provides 68% of the less-than-truckload transportation services for the US Department of Defense. In a [statement](#), the company said it and its operating subsidiaries have been “significantly impacted” by the pandemic.

The [loan](#) is divided into two tranches of approximately \$350 million each. The first will be used to cover short-term contractual obligations and certain other obligations including pension and healthcare payments. It will carry an interest rate of LIBOR plus 3.5%, consisting of 1.5% cash and 2.0% payment in kind. The second tranche will be used for essential capital investment in trailers and tractors and will carry an interest rate of LIBOR plus 3.5%, payable in cash. Both loan tranches mature on September 30, 2024.

The CARES Act prohibits the Treasury Department from issuing a loan to a borrower that has issued securities that are traded on a national securities exchange unless the Treasury Department receives a warrant or equity interest in the borrower.

YRC will issue to the Treasury shares of common stock that, after the issuance, will constitute approximately 29.6% of YRC’s fully diluted common stock outstanding. YRC will use a COVID-19-related exception from the NASDAQ stock exchange to issue the new shares without current stockholder approval. The Treasury will hold these shares in a voting trust that will be required to vote the shares in the same proportion as all other unaffiliated shares of YRC’s common stock are voted.

The company’s stock rose [as much as 92%](#) today on NASDAQ after the Treasury’s announcement.

The CARES Act also imposes requirements in the loan agreement. YRC will be prohibited from share buybacks and dividend payments until 12 months after the loan is no longer outstanding. YRC has committed to maintain its employment level and cannot

reduce the employment level by more than 10%. It is also subject to the executive compensation limits established in Section 4004 of the CARES Act.

Consistent with the CARES Act, the term of loan to YRC is below the maximum duration of 5 years. Under section 4003(d)(3) of the Act, the principal amount of loans made under this provision of the CARES Act cannot be forgiven.

The Treasury Department announced that it would begin accepting applications from businesses critical to national security on [April 27](#) with a deadline of May 1; however, the [application portal](#) is still available online.

The loan to YRC appears to be the first Treasury announcement of CARES Act support to a business deemed critical to national security.

The Treasury also has the [authority](#) to lend to air carriers, as Section 4003(b) allocated up to \$25 billion for passenger air carriers and \$4 billion for cargo air carriers. One component of Treasury support is the [Payroll Support Program](#) for passenger air carriers which assists eligible businesses with employee wages, salaries and benefits. As of [May 12](#), the Treasury had approved over \$25 billion in response to 352 applications. The Treasury reports recipients, agreement dates, the total anticipated payroll support, anticipated principal, number of warrants, and warrant exercise price [here](#).