

# **Report Under Section 4026(b)(1) of the CARES Act on Loans to Air Carriers, Eligible Businesses, and National Security Businesses**

## **Program Description**

Section 4003 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) authorizes the Treasury Department to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred as a result of coronavirus.

The CARES Act provides:

- (1) up to \$25 billion for loans and loan guarantees for passenger air carriers; eligible businesses that are certified under 14 CFR part 145 and approved to perform inspection, repair, replace, or overhaul services; and ticket agents (as defined in 49 U.S.C. § 40102);
- (2) up to \$4 billion for loans and loan guarantees for cargo air carriers; and
- (3) up to \$17 billion for loans and loan guarantees for businesses critical to maintaining national security.

A loan or loan guarantee under section 4003 may be made in such form and on such terms and conditions and contain such covenants, representations, warranties, and requirements as the Treasury Secretary determines appropriate. However, the CARES Act specifies a number of requirements applicable to these loans. Among other requirements under the statute, borrowers must agree to maintain employment levels as of March 24, 2020 to the extent practicable, and in any case not reduce their employment levels by more than 10 percent from the levels on such date, until September 30, 2020. Borrowers must also agree to certain restrictions on employee compensation; agree not to repurchase stock, except to the extent required under a contractual obligation in effect as of March 27, 2020; and agree not to pay dividends or make other capital distributions with respect to the borrower's common stock until 12 months after the loan has been repaid.

In addition, the CARES Act requires that Treasury receive a warrant or equity instrument in the borrower if the borrower is a public company (unless Treasury determines that the issuance of warrants or equity is infeasible, in which case the company must provide a senior debt instrument), or a warrant, equity instrument, or senior debt instrument if the borrower is a private company, to compensate taxpayers.

## **Reporting Requirements**

The CARES Act requires Treasury to make a number of disclosures regarding its loans and loan guarantees under section 4003 of the CARES Act:

- (1) under section 4026(a) of the CARES Act, not later than 72 hours after any transaction under section 4003(b)(1), (2), or (3) of the CARES Act, Treasury must

- publish on its website a description of the transaction, certain transaction terms, and transaction documentation;
- (2) under section 4026(b)(1)(A) of the CARES Act, not later than seven days after any loan or loan guarantee under section 4003(b)(1), (2), or (3), Treasury must submit to Congress a report summarizing the actions taken under those provisions and certain related financial information;
  - (3) under section 4026(b)(1)(B) of the CARES Act, not later than seven days after delivering the report to Congress described above, Treasury must publish the report on its website; and
  - (4) under section 4026(b)(1)(C) of the CARES Act, every 30 days while a loan or loan guarantee under section 4003(b)(1), (2), or (3) is outstanding, Treasury must publish on its website a report summarizing its reports to Congress described above.

## **Current Report**

This is Treasury's fourth report under section 4026(b)(1) of the CARES Act and reflects five transactions: one transaction on October 22, 2020; two on October 23, 2020; and two on October 26, 2020.

Treasury entered into these five loan transactions under section 4003(b)(1), (2), or (3) of the CARES Act for a total of \$2.27 billion, of which \$46 million has been disbursed.

### ***American Airlines***

On September 25, 2020, Treasury agreed to make a loan of up to \$5.477 billion to American Airlines, Inc. (American Airlines). On October 21, 2020, Treasury increased the maximum loan amount to \$7.5 billion. American Airlines is a wholly owned subsidiary of American Airlines Group, Inc. and one of the largest domestic airlines in the United States. American Airlines had approximately 157,000 U.S. employees in March 2020 and carried more than 150 million passengers in 2019.

The loan is secured by American Airlines' AAdvantage loyalty program. The loan has an interest rate equal to LIBOR plus 3.5% and matures on June 30, 2025. American Airlines elected to draw \$550 million upon closing of the loan on September 25, 2020, and it may draw the remaining loan funds in multiple draws through March 26, 2021. The loan proceeds will be used to provide liquidity to continue American Airlines' operations. The transaction agreement includes covenants by the company to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. Treasury will receive warrants to purchase common stock with an aggregate value equal to 10% of the total loan amount drawn.

### ***Aero Hydraulics***

Treasury agreed to make a loan totaling \$450,000 to Aero Hydraulics Inc. (Aero Hydraulics), a repair station with approximately 2 U.S. employees in March 2020.

The loan is unsecured. It has an annual interest rate equal to LIBOR plus 5.5% and matures on October 23, 2025. Treasury funded the full loan amount at close. The loan proceeds will be used to provide liquidity to continue Aero Hydraulics' operations. The transaction agreement includes covenants by Aero Hydraulics to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. The loan constitutes senior indebtedness of Aero Hydraulics, and Treasury will receive 3% payment-in-kind annual interest on the loan in accordance with section 4003(d) of the CARES Act.

### ***Bristin Travel Services, LLC***

Treasury agreed to make a loan totaling \$549,651 to Bristin Travel, LLC (Bristin), a ticket agent with approximately 12 U.S. employees in March 2020.

The loan is secured by Bristin's accounts receivable. The loan has an interest rate equal to LIBOR plus 3.5% and matures on October 26, 2025. Treasury funded the full loan amount at close. The loan proceeds will be used to provide liquidity to continue Bristin's operations. The transaction agreement includes covenants by Bristin to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. The loan constitutes senior indebtedness of Bristin, and Treasury will also receive 3% payment-in-kind annual interest on the loan in accordance with section 4003(d) of the CARES Act.

### ***Hawaiian Airlines***

On September 28, 2020, Treasury agreed to make a loan of up to \$420 million to Hawaiian Airlines, Inc. (Hawaiian Airlines). On October 23, 2020, Treasury increased the maximum loan amount to \$622 million. Hawaiian Airlines is a wholly owned subsidiary of Hawaiian Holdings, Inc. and one of the largest domestic airlines in the United States. Hawaiian Airlines had approximately 7,400 U.S. employees in March 2020 and carried more than 11 million passengers in 2019.

The loan is secured by Hawaiian Airlines' HawaiianMiles loyalty program as well as certain aircraft. The loan has an interest rate equal to LIBOR plus 2.5% and matures on June 30, 2024. Hawaiian Airlines elected to draw \$45 million upon closing of the loan on September 28, 2020, and it may draw the remaining loan funds in multiple draws through March 26, 2021. The loan proceeds will be used to provide liquidity to continue Hawaiian Airlines' operations. The transaction agreement includes covenants by Hawaiian Airlines to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. Treasury will receive warrants to purchase common stock with an aggregate value equal to 10% of the total loan amount drawn.

### ***Sun Country, Inc.***

Treasury agreed to make a loan totaling \$45 million to Sun Country, Inc. (Sun Country), a wholly owned subsidiary of Sun Country Holdings, Inc. Sun Country is a

passenger air carrier with approximately 1,630 U.S. employees in March 2020.

The loan is secured by Sun Country's Sun Country Rewards loyalty program. The loan has an annual interest rate equal to LIBOR plus 3.5% and matures on October 26, 2025. Treasury funded the full loan amount at close. The loan proceeds will be used to provide liquidity to continue Sun Country's operations. The transaction agreement includes covenants by Sun Country to comply with certain restrictions on employee compensation, stock repurchases, dividends, and reductions in employment levels, as required by the CARES Act. The loan constitutes senior indebtedness of Sun Country, and Treasury will also receive 3% payment-in-kind annual interest on the loan in accordance with section 4003(d) of the CARES Act.

The loan agreements are available on Treasury's website at <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

## Detailed Financial Statement (\$ Thousands)

Borrower	Borrower Type <sup>1</sup>	City <sup>2</sup>	State <sup>2</sup>	Date of Loan Agreement	Maturity Date	Total Anticipated Loan Amount	Disbursements <sup>3</sup>
Aero Hydraulics, Inc.	Repair Station	Fayetteville	GA	10/23/20	10/23/25	\$450,000	\$450,000
American Airlines, Inc. <sup>4</sup>	Passenger Air Carrier	Fort Worth	TX	09/25/20 (amended Oct. 22, 2020)	06/30/25	\$7,500,000,000	\$550,000,000
Bristin Travel, LLC	Ticket Agent	Fayetteville	AR	10/26/20	10/26/25	\$549,651	\$549,651
Hawaiian Airlines, Inc. <sup>5</sup>	Passenger Air Carrier	Honolulu	HI	09/28/20 (amended Oct. 23, 2020)	06/30/24	\$622,000,000	\$45,000,000
Sun Country, Inc.	Passenger Air Carrier	Minneapolis	MN	10/26/20	10/26/25	\$45,000,000	\$45,000,000

1. Only certain categories of entities are eligible to receive loans under sections 4003(b)(1), (2), and (3) of the CARES Act. Under those provisions, a borrower must be a passenger air carrier; a business that is certified under 14 CFR part 145 and approved to perform inspection, repair, replace, or overhaul services; a ticket agent (as defined in 49 U.S.C. 40102); a cargo air carrier; or a business critical to maintaining national security.
2. The location provided is the address included by borrowers in their applications and may not include all locations in which a borrower operates.
3. Includes disbursements to Aero Hydraulics, Bristin, and Sun Country between October 23 and October 26; to American Airlines on September 25, 2020; and to Hawaiian Airlines on September 28, 2020.
4. American Airlines entered into a loan agreement for up to \$5.477 billion on September 25, 2020 and an amendment on October 22, 2020 increasing the maximum loan amount by \$2.023 billion.
5. Hawaiian Airlines entered into a loan agreement for up to \$420 million on September 28, 2020 and an amendment on October 23, 2020 increasing the maximum loan amount by \$202 million.