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# Fueling Tech Growth: New Federal Financing from the Department of Defense's Strategic Capital Program



Growth companies needing to scale manufacturing capacity often struggle to source adequate and affordable financing. Traditional banks usually can not take the credit risk and non-bank lenders (e.g. private equity) impose terms that crush return on investment.

Where can growth companies find the credit needed to bridge the oft-referenced "Valley of Death" without diluting Return On Investment (ROI)?

The surprising answer is the federal government. Before you roll your eyes and dismiss this notion, note the following sources of federal government financing.

## Three Often Overlooked Federal Finance Opportunities for Growth Companies

### U.S. EXIM Bank's "Make More in America Program" (MMIA)

MMIA is a relatively new domestic financing program offered by the EXIM Bank. Yes, EXIM is largely an export credit agency, but MMIA was created to spur U.S. manufacturing and create more resilient supply chains.

Through MMIA, EXIM is lending to middle-market manufacturing companies with a proven

product or technology but will need financing to scale manufacturing to be profitable.

EXIM can make loans as small as \$10 million to over \$100 million. In addition to proceeds, EXIM offers attractive pricing and tenures.

For a deeper understanding of the ways to tap into the financing solutions of the U.S. EXIM Bank, check out my previous article: [Accessing Financing Solutions of the U.S. EXIM Bank](#).

### **Department of Energy (DOE) Loan Program Office (LPO)**

DOE's LPO is designed to provide growth financing to domestic renewable energy companies and projects. Spurred by the Inflation Reduction Act, LPO has the authorization to administer loan guarantees totaling over \$300 billion.

Its loan terms are similar, yet a bit more generous, than EXIM's with slightly more relaxed underwriting requirements.

### **Department of Defense Office of Strategic Capital (OSC)**

OSC is the newest entrant in the federal government's arsenal of financing tools for growth companies.

OSC connects companies developing critical technologies vital to national security with capital. It does not rely on grants and contracts to deploy capital like other existing programs.

OSC is designed to provide financing solutions to technology companies that require long-term financing to bridge the gap between the laboratory and full-scale production.

The underwriting process is like that of EXIM but improved with some modifications and enhanced flexibility. OSC's mission is speed of execution. OSC can make loans up to \$150 million. Creditworthiness is an important requirement in any federal government lending program. However, OSC's underwriting determination is a "reasonable prospect of repayments."

EXIM can make loans to a broader constituency of applicants and does not have a lending cap. But, in contrast to OSC, EXIM's underwriting determination is a more restrictive "reasonable assurance of repayment." And its loan approval timeline is typically longer.

Below is a detailed summary outline of the OSC's recent Notice of Funding Availability.

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### **Notice of Funding Availability**

The document titled "Notice of Funding Availability" from the Department of Defense (DoD) outlines the availability of up to \$984 million in direct loans for equipment financing aimed at supporting technologies in specified Covered Technology Categories.

### **Summary of the Program's Key Components:**

#### **Overview**

- Agency: Office of Strategic Capital (OSC), DoD.
- Funding Purpose: To finance the construction, expansion, or modernization of commercial equipment that supports U.S. national security and economic interests.
- Loan Amounts: Loans will range from \$10 million to \$150 million.

#### **Application Timeline:**

Part 1 Submission: Opens January 2, 2025, and closes February 3, 2025.

Part 2 Submission: Invited after Part 1 review; rolling basis.

#### **Eligibility Criteria**

Eligible applicants must be entities such as corporations, partnerships, state or tribal governments, and must meet specific criteria:

- Must be involved in a Covered Technology Category.
- Cannot solely focus on defense applications.
- Must demonstrate creditworthiness and operational history.

### **Covered Technology Categories**

The funding targets a wide range of technologies as defined under 10 U.S.C. 149(e), including but not limited to:

- Advanced manufacturing
- Cybersecurity
- Quantum computing
- Battery storage
- Spacecraft technologies

### **Funding Details**

Financial Structure

- Direct Loans: Loans will be provided based on project creditworthiness and market conditions.
- Interest Rates: Set according to market factors but will not be lower than Treasury securities yields.

### **Application Process**

The application process consists of two parts:

1. Part 1: Validates eligibility and project suitability.
2. Part 2: Detailed application for selected candidates from Part 1.

### **Evaluation Criteria**

Applications will be assessed based on:

- Compliance with statutory requirements.
- Contribution to national security or economic interests.
- Creditworthiness of the investment.

### **Additional Information**

The OSC reserves the right to amend or withdraw the notice at any time. Future funding opportunities may include other financial assistance forms beyond direct loans.

This funding initiative aims to leverage private capital alongside public funds to enhance U.S. technological capabilities critical for national security, reflecting a strategic approach to maintaining technological leadership on a global scale.

### **How To Apply**

To apply for the funding available through the Department of Defense's Office of Strategic Capital, applicants must meet specific eligibility criteria outlined in the Notice of Funding Availability.

### **Key Eligibility Criteria**

#### **1. Eligible Entities**

Applicants must be one of the following:

An individual

A corporation

A partnership (including public-private partnerships)

A trust

A state or political subdivision

A tribal government or consortium

Any governmental entity or public agency in the U.S.

A multi-state or multi-jurisdictional group of public entities.

Borrowing entities must demonstrate a minimum of three years of operating history, although this requirement may be waived at the discretion of the OSC if exceptional alignment with program objectives is demonstrated.

#### **2. Project Alignment**

Investments must be in a Covered Technology Category (CTC) as defined under 10

U.S.C. 149(e). Projects must not focus solely on technologies with defense applications; they should have broader commercial applications.

### 3. **Creditworthiness**

Applicants will be assessed for their creditworthiness and financial viability as part of the application process.

### 4. **Compliance**

Applicants must comply with the provisions of the Federal Credit Reform Act of 1990 and other relevant statutory requirements.

### 5. **Investment Source**

At least 80% of the total capital invested in a CTC-focused industry must come from non-Federal sources at the time of investment.

### 6. **Additional Requirements**

**Operating History:** Borrowing entities must demonstrate a minimum of three years of operating history, although this requirement can be waived if the application shows exceptional alignment with OSC objectives.

## **Eight Key Factors That Influence Creditworthiness**

The creditworthiness of an entity applying for funding from the Office of Strategic Capital (OSC) is determined by several factors that assess the financial health and viability of the applicant.

### 1. **Financial Stability**

**Revenue and Profitability:** Consistent revenue streams and profitability indicate a strong financial position.

**Cash Flow:** Positive cash flow is crucial, as it demonstrates the ability to meet operational expenses and repay loans.

### 2. **Debt Levels**

**Existing Debt Obligations:** The amount of current debt and how it compares to income (debt-to-income ratio) helps assess financial risk.

**Credit History:** A history of timely payments on existing debts enhances creditworthiness.

### 3. **Operating History**

An entity must generally demonstrate a minimum of three years of operating history, which provides insight into its business model and market performance. This requirement may be waived in exceptional cases.

### 4. **Business Plan Viability**

The strength and feasibility of the business plan associated with the project for which funding is sought are evaluated. A robust plan indicates potential for success and repayment capability.

### 5. **Market Position**

The entity's position within its industry, including market share, competitive advantages, and growth potential, can affect credit assessments.

### 6. **Collateral Availability**

The presence of tangible assets that can be pledged as collateral may improve creditworthiness by reducing lender risk.

### 7. **Compliance with Regulations**

Adherence to relevant federal regulations and guidelines, such as those outlined in the Federal Credit Reform Act, is critical for determining eligibility and creditworthiness.

### 8. **Alignment with OSC Objectives**

Projects that align closely with OSC's mission to support technologies critical to national security may receive favorable consideration in terms of credit assessments.

## Nine Key Factors in Creditworthiness Evaluation

The Office of Strategic Capital (OSC) evaluates the creditworthiness of investments through a comprehensive assessment process that considers multiple factors.

### 1. Compliance with Statutory Requirements

Projects must align with the statutory requirements set forth in the National Defense Authorization Act (NDAA) and comply with the Federal Credit Reform Act of 1990.

### 2. Support for National Security and Economic Interests

The extent to which an investment supports U.S. national security or economic interests is a critical consideration. Projects that demonstrate a clear alignment with these priorities are favored.

### 3. Impact of Direct Loans

OSC assesses the potential impact that the requested direct loans would have on the project or transaction, including how the funding will enhance operational capabilities or market competitiveness.

### 4. Financial Stability and Viability

Creditworthiness is evaluated based on the entity's financial health, which includes:  
Revenue consistency and profitability.  
Positive cash flow.  
Existing debt levels and overall financial obligations.

### 5. Operating History

Applicants typically need to demonstrate a minimum of three years of operating history, although this requirement may be waived for exceptional projects that strongly align with OSC objectives.

### 6. Business Plan Quality

The robustness and feasibility of the business plan associated with the investment are scrutinized. A well-structured plan indicates a higher likelihood of success and repayment capability.

### 7. Market Position and Competitive Advantage

OSC considers the entity's position within its industry, including market share, competitive advantages, and growth potential, which can influence credit assessments.

### 8. Collateral and Security

The availability of collateral to secure the loan is also taken into account. This may include tangible assets that can be pledged as security against the loan.

### 9. Holistic Review Process

The evaluation process includes a holistic review of all application responses, particularly those about eligibility criteria developed under section 8140 of the Appropriations Act, ensuring that all aspects of an application are considered.

The project's economic impact plays a significant role in the creditworthiness assessment conducted by the Office of Strategic Capital (OSC).

## Six Key Aspects of How Economic Impact is Considered:

### Importance of Economic Impact in Creditworthiness Assessment

#### 1. Alignment with National Security and Economic Interests

OSC evaluates the extent to which an investment supports U.S. national security or economic interests. Projects that demonstrate a positive economic impact are more likely to be viewed favorably in the credit assessment process, as they contribute to broader strategic goals.

#### 2. Potential for Job Creation and Economic Growth

The anticipated economic benefits, such as job creation, increased productivity, and

contributions to local or national economies, are crucial factors. Projects that promise to stimulate economic activity can enhance their creditworthiness by demonstrating their value beyond the immediate financial returns.

### 3. Impact of Direct Loans on Project Viability

OSC assesses how direct loans will positively affect the project's feasibility and success. A project that can clearly articulate how funding will lead to significant economic benefits may improve its chances of receiving support.

### 4. Contribution to Technological Advancement

Investments in technologies that have commercial applications beyond defense purposes are prioritized. Projects that can show potential for innovation and advancement in critical technology sectors will likely be viewed as economically impactful, thereby enhancing creditworthiness.

### 5. Market Position and Competitive Advantage

The project's ability to strengthen its market position or provide a competitive advantage in its industry is considered. A project that can demonstrate its potential to outperform competitors or lead to market growth is more likely to be deemed creditworthy.

### 6. Long-Term Economic Sustainability

OSC looks for projects that promise long-term economic sustainability rather than short-term gains. A project with a solid plan for ongoing operations and profitability will be more attractive from a credit perspective.

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**Stephen Renna**

Senior Managing Director

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