

# Significant New Funding Opportunity: DoD Office of Strategic Capital Loan Program to Scale Critical Technologies

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On September 30, the Department of Defense's (DoD) Office of Strategic Capital (OSC) **announced** its first-ever Notice of Funding Availability (NOFA) to provide loans for technologies that are critical to US national and economic security. OSC loans can be provided for the construction, expansion, or modernization of commercial facilities that create products supporting the 31 covered technology categories (CTC) laid out in the National Defense Authorization Act (NDAA) for fiscal year 2024 (see below).

OSC was granted a total loan authority of \$984 million, which is available through FY26. For the initial round, OSC expects to make loans in the range of \$10 million – \$150 million to approximately 10 successful applicants. The remaining funding, if any, will be used for future funding opportunities. Subject to appropriations, OSC expects to publish opportunities in the future for additional CTCs and types of assistance, including loan guarantees.

Like many other federal grant and loan programs, OSC is using a two-step process for companies to apply to the NOFA. Part 1 of the application is open to all eligible parties **starting on January 2, 2025 through 4:59 pm EST on February 3, 2025**. See below for a list of eligible entities. Applications will then be reviewed by the OSC and prioritized by selection criteria. Eligibility and selection criteria for investments require compliance with the statute, the extent to which the investment supports US national security or economic interests, the impact the loan would have on the project, and the creditworthiness of the investment. Selected applicants will be invited to submit Part 2 applications, which will be accepted on a rolling basis.

## Background

The FY24 NDAA, signed into law on December 22, 2023, established the OSC and granted it the authority to issue loans and loan guarantees that will increase private investment in critical technologies and supply chains that are crucial to US national and economic security. These investments are intended to attract and scale private capital to these technologies. The NDAA (as defined below) states OSC shall:

- develop, integrate, and implement capital investment strategies proven in the commercial sector to shape and scale investment in critical technologies and assets;
- identify and prioritize promising critical technologies and assets that require funding and have the potential to benefit DoD; and
- make eligible investments in such technologies and assets, such as supply chain technologies that are not always supported through direct investment.

The NDAA section 903(d) requires that “not less than 80 percent of the total capital provided for the specific technology to be funded by the investment shall be derived from non-Federal sources as of the time of the investment.” While OSC will monitor compliance with this requirement, it generally does not expect this requirement to restrict investment into individual projects.

OSC loans can be made for a tenor of up to 50 years at interest rates that are not less than comparable U.S. Treasuries, though the Secretary of Defense can waive this requirement if it is deemed vital to the national security of the United States. Funding can be used to finance the purchase or rehabilitation of equipment, as well as costs associated with the equipment, like pre-installation costs, ancillary costs, installation costs, appraisal and inspection costs, and refinancing costs.

## Why It Matters

The creation of the OSC and this loan program can potentially be catalytic to many critical defense-related US technologies. The recent announcement comes at a time when the race for global technology

competitiveness has come to the forefront of US policy. The **CHIPS and Science Act of 2022** made historic investments into American scientific and technological innovation to keep the US at the forefront of the technology race. A similar level of investment has been made through the **Inflation Reduction Act** and especially via the DOE Loan Programs Office. The OSC Loan Program contributes to this work by growing the production of critical defense technologies in America and maintaining the country's competitive status.

The OSC authorizing statute states that the program is to sunset in 2028, and while the NDAA characterized this initial round as a pilot program, the OSC mission is likely to receive broad bipartisan support. Sustained funding with expansion of the technologies could be possible if the program can be well-executed. Having met with OSC, ML Strategies knows they are well-positioned to move forward, borrowing heavily from other federal loan programs for personnel, policies, and procedures. The challenge could come down to finding good investment opportunities that meet the OSC criteria in this initial round.

While the OSC's mission is to attract and scale private capital, the 80% non-federal requirement described above will mean that private capital has already played a substantial role in a company's investment. In addition, OSC loans will be subject to the Federal Credit Reform Act (FCRA), which means that any applicant whose repayment is based on a federal procurement will be negatively scored. In our opinion, this creates a relatively narrow window for applicants to qualify for the program, as their technology must be both critical to national defense and also have significant non-federal business or opportunities. But for the right opportunity, the new OSC program would be a welcome source of federal support for scaling critical technologies.

## How We Can Help

The new OSC loan program opens a potentially new area of federal funding for critical technologies, alongside other programs like CHIPS and financing offered through the Department of Energy's Loan Programs Office (LPO). ML Strategies has extensive experience helping clients apply for Department of Defense, Department of Energy, and Department of Commerce federal loans and grants. Contact us to learn more about how you can take advantage of this groundbreaking program.

## Topic Areas

The NOFA provides funding for covered technology categories as outlined by the FY24 NDAA to include:

- Advanced bulk materials
- Advanced manufacturing
- Autonomous mobile robots
- Battery storage
- Biochemicals
- Bioenergetics
- Biomass
- Cybersecurity
- Data fabric
- Decision science
- Edge computing
- External communication
- Hydrogen generation and storage
- Mesh networks
- Microelectronics assembly, testing, or packaging
- Microelectronics design and development
- Microelectronics fabrication
- Microelectronics manufacturing equipment
- Microelectronics materials
- Nanomaterials and metamaterials
- Open RAN
- Optical communications
- Sensor hardware
- Solar
- Space launch
- Spacecraft
- Space-enabled services and equipment
- Synthetic biology
- Quantum computing
- Quantum security
- Quantum sensing

## Eligible Entities

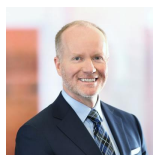
Funding from this NOFA is available to individuals; corporations; partnerships which may include a public-private partnership, limited partnership, or general partnership; trusts; states, including a political subdivision or any other instrumentality of a state; Tribal governments or consortiums of Tribal governments; any other governmental entity or public agency in the United States, including a special purpose district or public authority, including a port authority; or a multistate or multi-jurisdictional group of public entities. Eligibility is also open to joint ventures or strategic alliances among these entities.

## Authors



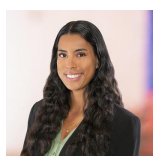
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John Lushetsky is a Senior Vice President of ML Strategies, who leverages more than 30 years of government, business, and military experience to help clients advance their goals. John has held numerous senior executive-level positions focused on the development, commercialization, and financing of energy and other technologies.



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