

Actions Being Taken to Support U.S. Businesses

Overview

- Since early March, the government has taken several actions to support U.S. businesses through legislation as well as direct actions by the Federal Reserve and Treasury Department
- This document highlights the programs we believe are most salient to our clients, including:

| Program | Most Applicable To ¹ | Overview |
|--|------------------------------------|---|
| Paycheck Protection Program | Businesses <500 Employees | Forgivable Loans |
| Economic Injury Disaster Loan / Grant | Businesses <500 Employees | Low Interest Loans / Grants |
| SBA Loan Subsidy | Existing or New SBA Borrowers | SBA Subsidizes 6 Payments |
| Assistance for Mid-Sized Businesses | Businesses 500 – 10,000 Employees | Low Interest Loans |
| Commercial Paper (“CP”) Funding Facility | Investment Grade CP Issuers | Gov’t Purchase of CP |
| Term Asset-Backed Securities Loan Facility | Issuers of Asset-Backed Securities | Gov’t Purchase of Asset-Backed Securities |
| Primary Market Corporate Credit Facility | Investment Grade Borrowers | Gov’t Purchase of Loans / Bonds |
| Payroll Tax Relief | All Businesses | Defer Payroll Taxes |
| Income Tax Delay | Federal Tax Payers | Delay Income Taxes |
| Net Operating Losses (“NOLs”) | Businesses with NOLs | Extend Carryback / Fully Offset Income |

- *Important: Only **bolded items** are currently operational.*

Paycheck Protection Program

("PPP")

Overview

- PPP allows businesses, 501(c)(3)non-profits, tribal businesses, sole proprietors, contractors and veteran's organizations impacted by COVID-19 to borrow up to \$10mm in forgivable loans to cover payroll and/or interest, rent and utility expenses
 - Program is administered by SBA lenders and runs through June 30th, 2020

Eligibility

- Public and private businesses as well as 501(c)(3)s operating in the U.S. since February 15th, 2020 with either fewer than 500 full, part time or other employees or¹:
 - Meeting the SBA's NAICS-based size standards, available at:
https://www.sba.gov/sites/default/files/2019-08/SBA%20Table%20of%20Size%20Standards_Effective%20Aug%2019%2C%202019.pdf
 - Having <\$15mm of tangible net worth AND <\$5mm of average earnings in last 2 years
 - Note, a hospitality and dining firm in NAICS code 72 with more than 1 location can qualify if the number of employees at each location is less than 500
- CARES Act does not override the SBA's "affiliation" rules¹
 - Entities are "affiliates" when they are controlled by or under common control of another entity. This generally includes private equity owners
 - Business cannot exceed the size thresholds for either the primary industry of the business alone or the industry of the business and its affiliates, whichever is greater
 - For groups of affiliates that do not operate in same industry (often the case with private equity), industry code is based on the primary income producing entity
- The CARES Act creates 3 exceptions to the affiliation rules for the PPP:
 - Hospitality and dining firms in NAICS codes 72 with less than 500 employees
 - Franchises that are assigned a franchise identification code by the SBA
 - Businesses receiving assistance from a Small Business Investment Company
 - *Portfolio companies falling within these exceptions as well as those not deemed to be an affiliate (e.g., certain minority investments) may be able to take advantage of a loan*

1) Further detail on affiliation rules are available at: https://www.sba.gov/sites/default/files/2018-09/2018-07-13%20AFFILIATION%20GUIDE_Updated%20%281%29.pdf

Paycheck Protection Program

("PPP")

Borrower Certification

- Borrowers must make a good faith certification that:
 - Loan is necessary to support the business through environment created by COVID-19
 - Funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments and utility payments
 - They have not otherwise received funds or have an application pending under the Paycheck Protection Program
- Do not need to demonstrate that credit is otherwise unavailable to the borrower

Loan Amount

- Loan amounts are formulaically determined and equal to the lesser of \$10mm or the sum of any outstanding COVID-19 Economic Injury Disaster Loan ("EIDL")¹ plus:
 - For non-seasonal employers, 2.5x the average monthly payroll over the last year
 - For seasonal firms, 2.5x the average monthly payroll for the 12-week period starting either February 15th, 2019 or March 1st, 2019 (at the election of the borrower)
 - For businesses without a full year of payroll history, 2.5x the average monthly payroll from January 1st, 2020 to February 29th, 2020
- Payroll includes salaries (capped at \$100k per employee), tips, employee benefits including healthcare and retirement costs, state and local taxes applied to compensation

Interest and Fees

- Interest rate is 0.50%
- Borrowers will not be charged any participation fees or prepayment fees²

Collateral and Guarantees

- No collateral or personal guarantees are required
- SBA will have no recourse unless loans are used for purpose other than authorized

1) Borrowers may elect to refinance an existing COVID-19 EIDL.

2) Banks will receive a processing and servicing fee from the SBA.

Paycheck Protection Program

("PPP")

Loan Forgiveness

- Loans are eligible for forgiveness up to the principal balance¹. The amount of forgiveness is calculated as the sum of amounts paid in the 8 weeks following loan origination for:
 - a) Payroll (as defined on prior page), b) mortgage interest (excluding pre-payments or overpayments), c) rent (including rent under a lease agreement) and d) utilities
 - Guidance indicates that non-payroll costs should not exceed 25% of forgiven amount
- Forgiveness amount will be reduced:
 - Proportionally by any reduction in full-time equivalent employees ("FTE") in the period from February 15th, 2020 to June 30th, 2020 as compared to by average monthly FTEs from either February 15th, 2019 to June 30th, 2019 or from January 1st, 2020 to February 29th, 2020 (borrower can choose comparison period)
 - By any decrease in wages beyond 25% for employees earning less than \$100k per year occurring February 15th, 2020 to June 30th, 2020 relative to wages in 4Q19
 - To encourage rehiring and pay raises, borrowers bringing employee and salary levels to where they were at February 15th, 2020 will not be penalized by these reductions
 - By any funds received under an EIDL Emergency Grant (see next section)
- Cancelled indebtedness will not be included in borrowers' taxable income

Maturity and Payments

- Balances remaining after loan forgiveness will have a 2 year term
- Loan and interest payments are deferred for 6 months

Interaction with Other Programs

- Borrowers may apply for Paycheck Protection loans and other SBA financial assistance, including EIDLs, however they cannot use the loans for the same purpose
 - For example, if you use Paycheck Protection Loan to cover payroll for the 8-week covered period, you cannot use a different SBA loan to make payroll for that same period, although you could use it for a different period

¹) If full principal is repaid, borrower will not be responsible for the interest accrued in the 8-week period.

Economic Injury Disaster Loans

("EIDL")

Overview

- EIDLs allow small businesses, tribal businesses, cooperatives, ESOPs, non-profits, sole proprietors and contractors with fewer than 500 employees that are impacted by COVID-19 to receive loans up to \$2mm to pay debts, make payroll and meet other expenses
 - In addition, CARES created new "Emergency Grants" of up to \$10k available to EIDL applicants that are disbursed within 3 days and are not required to be repaid
 - EIDL loans can be applied for directly with the SBA at <https://disasterloan.sba.gov/ela/>

Business Eligibility

- Businesses with less than 500 employees or, if more lenient, meeting the SBA small business definition outlined in the prior PPP section, operating since January 31st, 2020
- Do not need to demonstrate that credit is otherwise unavailable to the borrower

Interest and Fees

- 3.75% for small businesses and 2.75% for non-profits
- Borrowers will not be charged any participation fees or prepayment fees

Loan Amount, Underwriting and Term

- For the remainder of 2020, SBA can approve based solely on credit score, without the need for a borrower's tax return. It may also choose to use an alternative method
- Loan amount is determined by the SBA based on economic injury / need up to \$2mm
- Maximum term of loan is 30 years

Guarantees and Collateral

- Guarantees are required for loans >\$200k and collateral is required if loan is >\$25k
 - Real estate is preferred, but a loan will not be declined for lack of collateral. Any available collateral will be taken. SBA lien is subordinate to any existing liens

Emergency Grants

- Borrowers can receive up to a \$10,000 grant within 3 days after applying for an EIDL loan
 - If the application is denied, the applicant is not required to repay the grant