

RESOURCES TO HELP BUSINESSES DURING COVID-19

The coronavirus (COVID-19) pandemic has created an unprecedented global crisis. While individuals and families are adjusting to a new daily life centered around social distancing, businesses ranging from small to large enterprises are faced with protecting employees, customers and suppliers in a challenging economic environment. Given this situation, we have compiled a short summary of available capital options that businesses can use to secure financing. We hope this resource can help you or someone in your network manage through this period of acute change, and we stand ready to assist with strategy and advice where we can.

CARES Act

The House of Representatives approved the roughly \$2 trillion Coronavirus Aid, Relief and Economic Security (“CARES”) Act, which is intended to speed relief across the American economy. This bill is designed to keep businesses and consumers afloat during this challenging and unprecedented time. Some of the key highlights of the bill are as follows.

Individuals (est. \$560 billion)

- Approximately \$300 billion in cash payments to individuals and families, contingent upon income levels
- Increased unemployment assistance, among other assistance programs

Small Businesses (est. \$377 billion)

- \$10 billion for emergency grants of up to \$10,000 to provide funds for small businesses to cover immediate operating costs
- \$350 billion allocated for the Small Business Administration (SBA) to approve loans up to \$10 million per business
 - The SBA will oversee this so-called Paycheck Protection Program:
 - The maximum interest rate lenders can charge will likely be the prime rate + 2.25%
 - No collateral and no personal guarantees required
 - This program is being administered under the most common SBA 7(a) program, and the \$10 million loan limit represents a significant increase from the previous threshold of \$5 million for 7(a) loans
 - Businesses and non-profit entities with fewer than 500 employees will be eligible
 - Loan money used to cover payroll expenses, rent, interest payments on mortgage obligations and utility expenses may be eligible for loan forgiveness during the initial eight-week period of the loan
 - The Paycheck Protection Program currently gives eligible businesses until June 30, 2020 to apply for this loan offering
- \$17 billion in relief for existing SBA loans to cover six months of payments for small businesses

Large Corporations (est. \$500 billion)

- The bill sets aside roughly \$500 billion to help large corporations through loans and other financial assistance, including \$58 billion allocated to help airlines stay operational, among many others

State & Local Governments, Public Health, Education & Other (est. \$563 billion)

- The bill extends support to critical components of public life including government entities, healthcare providers and educational institutions
- Roughly \$340 billion for state and local governments, which will largely be allocated toward specific coronavirus response efforts
- \$100 billion in aid for hospitals responding to the coronavirus
- \$20 billion for veterans' health care

- Over \$24 billion for child nutrition and food stamp programs
- Temporary student loan relief, whereby all loan and interest payments will be deferred through September 30, 2020

Traditional Bank Financing & SBA Loans

Commercial Banks: As a first step, call your existing lenders and ask for assistance, whether it relates to possible deferral periods on current loans or additional funds. The credit market has already changed, but several commercial banks have started initiatives to help their lenders with low interest rate loans, payment deferrals or newly structured loans.

Small Business Administration Loans: The SBA, in partnership with banks, credit unions and other financial institutions, offers low-cost business loans backed by the U.S. government. These partnerships are carried out between the financial lenders (i.e. banks) and the SBA, which guarantees the loans. In addition to the estimated \$350 billion in new SBA lending capacity included in the CARES Act, the SBA Disaster Relief Loan program is another option available to companies in response to Covid-19. We strongly advise you to apply for these types of loans immediately, as a large influx of requests has been reported. Even if you do not need funds today, you should apply as the approval process will likely take four weeks or more, at which point your situation may have changed and you need funding then. There is no penalty for opting out of the loan or paying the funds back as you receive them, so this is a no-risk option.

- The SBA Disaster Relief Loan program allocates \$7 billion in disaster assistance loans
- Businesses can apply for up to \$2 million to help meet financial obligations and operating expenses
- Low fixed interest rates at 3.75% for small businesses and 2.75% for non-profit entities
- Maximum term of up to 30 years (loan terms will be determined on a case-by-case basis)
- The application for this type of loan will be managed directly by the SBA, not with an SBA-preferred lender or bank as would typically be the case with other SBA options

Non-Bank Financing

Non-bank entities have amassed large cash reserves available for investing and lending. Some of the key non-bank capital sources that may be alternatives for you to consider are highlighted below.

Private Equity & Family Offices: Throughout the past weeks, we have repeatedly spoken to our network of private equity firms and family office investors. The overwhelming consensus is that both remain open to investments (minority and majority) in firms that are currently for sale or were exploring potentially going to market. While an aggressive deal environment is unlikely in the coming weeks and months as the health of already existing portfolio companies takes precedence over new acquisitions, we note that private investors have collected large cash reserves waiting to be deployed. Private equity firms are taking steps to help their portfolio companies survive the coronavirus onslaught of forced closures, scattered workforces and upended markets.

Mezzanine Capital: This form of capital represents a hybrid between equity and debt investing, and traditionally comes in the form of preferred equity or subordinated debt. As an alternative to traditional bank debt, mezzanine capital can be a valuable alternative, although the interest rate or preferred returns make it more expensive.

Private Credit Funds: As reported just a few weeks ago, the private credit industry has an estimated \$271 billion in capital available to invest. Despite this large reserve, we expect to see a more challenging underwriting environment for private debt investors as some firms that lent aggressively in recent boom times could find themselves

overexposed to heavily indebted companies at risk of defaulting. Thus, private credit firms may decide to work through existing portfolio and liquidity issues first, before addressing new investment opportunities.

Business Development Companies: Business development companies, or BDCs, make investments in private companies, thereby providing permanent capital to businesses by taking advantage of a wide variety of sources, such as equity, debt and hybrid financial instruments. Like the other types of non-bank financing, BDCs can be a valuable alternative capital source.

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