



Main Street Lending & Economic Update *For Mid-Market Business*

April 27, 2020

BakerHostetler



Agenda & Introductions

- ☐ Agenda & Introductions
- ☐ CARES Act Legislative Updates
 - Paycheck Protection Program (PPP)
 - Economic Injury Disaster Loan
 - Health & Human Services
- ☐ Main Street Lending Program
- ☐ Business Tax Provisions of CARES Act
- ☐ Capital Markets Update
- ☐ Questions



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*CARES Act
Legislative Update
and
Main Street Lending Program*

Nathan Ware, Partner

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Legislative update

- Paycheck Protection Program and Health Care Enhancement Act
 - Signed into law April 24
- Paycheck Protection Program (PPP)
 - Additional funding of \$310 billion
- Economic Injury Disaster Loan (EIDL)
 - Additional funding of \$10 billion
- Health Human Services
 - \$75 billion to hospitals & health care providers for COVID-19 related expenses
 - \$25 billion for expenses related to COVID-19 testing

Main Street Lending Program

- \$600 billion fund to encourage new loans or to increase existing loans to smaller and medium size businesses
- Fed will create special purpose vehicle which will partner with eligible lenders to make main street loans to eligible borrowers
 - Treasury will invest \$75 billion in the SPV
- SPV will take 95% participation in eligible loans

Term Sheets

- Main Street Loans must conform to terms and conditions set forth in Main Street New Loan Facility term sheet or Main Street Expanded Loan term sheet released by Fed.
- Term sheets are largely similar, with some important distinctions.
- Term sheets not always clear on face and require further clarification and guidance from Fed.

Eligibility

- Borrower: Small to Medium-Size Businesses
 - No more than 10,000 employees, or \$2.5 billion in 2019 annual revenue.
- US Business
 - Borrower must be created or organized in US or under laws of US with significant operations, and a majority of employees based, in US
- Lender
 - US insured depository institutions, US bank holding companies and US savings and loan holding companies

Loan Terms

- Term
 - 4 years
- Interest Rate
 - Secured Overnight Financing Rate (*SOFR*) plus 250-400 basis points
- Deferment
 - Complete payment deferral for 1 year
- Minimum loan amount
 - \$1 million

Maximum Loan Amount

Main Street New Loan Facility

- Lesser of:
 - \$25 million; or
 - An amount of debt, when added to Borrower's existing outstanding and committed but undrawn debt, does not exceed 4x Borrower's 2019 EBITDA.

Expanded Loan Facility

- Lesser of:
 - \$150 million; or
 - 30% of Borrower's existing outstanding and committed but undrawn bank debt; or
 - An amount of debt, when added to Borrower's existing outstanding and committed but undrawn debt, does not exceed 6x Borrower's 2019 EBITDA.

Security

Main Street New Loan Facility

- Unsecured

Expanded Loan Facility

- If original loan was secured or becomes secured at time expanded loan is made, expanded loan will also be secured by same collateral on *pari passu* basis

Restrictions & Requirements

- No payment, reduction or cancellation of other loans or commitments
- Borrower must require financing due to exigent circumstances of COVID-19 and must attest that it will use proceeds to make reasonable efforts to maintain payroll and retain employees during loan term
- Borrower must follow compensation, stock repurchase and capital distribution restrictions set forth in sec. 4003 of CARES Act.

Status

- Press release on April 9
- Comments accepted until April 16
- Fed is expecting to finalize the program by the end of this week

Business Tax Provisions of *CARES Act*

Megan Murphy, Principal

Novogradac & Company LLP



Business Tax Provisions of CARES

for the April 27, 2020 CARES Act Main Street Lending Program & Economic Update for Mid-Market Businesses

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Business Tax Provisions



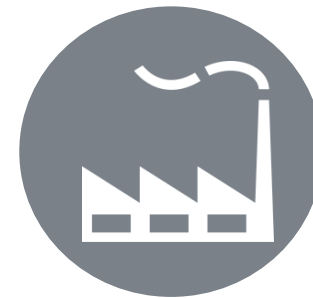
Payroll Taxes



**Interest
Expense and
Loss
Limitations**



AMT Credits



**Qualified
Improvement
Property**



Payroll Taxes

- **Delay of employer payroll tax payments**
 - Defers the employer's share payment to December 2021 and 2022.
- **Employee Retention Tax Credits**
 - Up to \$5,000 per employee refundable credit.
 - Not available if the employer participates in the Payroll Protection Program.

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Interest and Loss Limitations

- **Modification of limitation on business interest**
 - Increase from 30% to 50% in 2019 and 2020
 - Partnerships' limit increases in 2020 only, but with 50% of 2019 excess interest accrued in 2020.
- **Modifications of net operating loss carryback rule**
 - 5-year carryback for 2018, 2019, and 2020 NOLs.
 - Full offset against income.
 - Similar loss carryback for taxpayers other than corporations.

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AMT Credits and QIP



- **Modification of AMT credits**
 - Credits can be claimed currently.
- **Technical amendment on qualified improvement property**
 - Immediate write-off of facility improvement costs.

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Helpful Resources

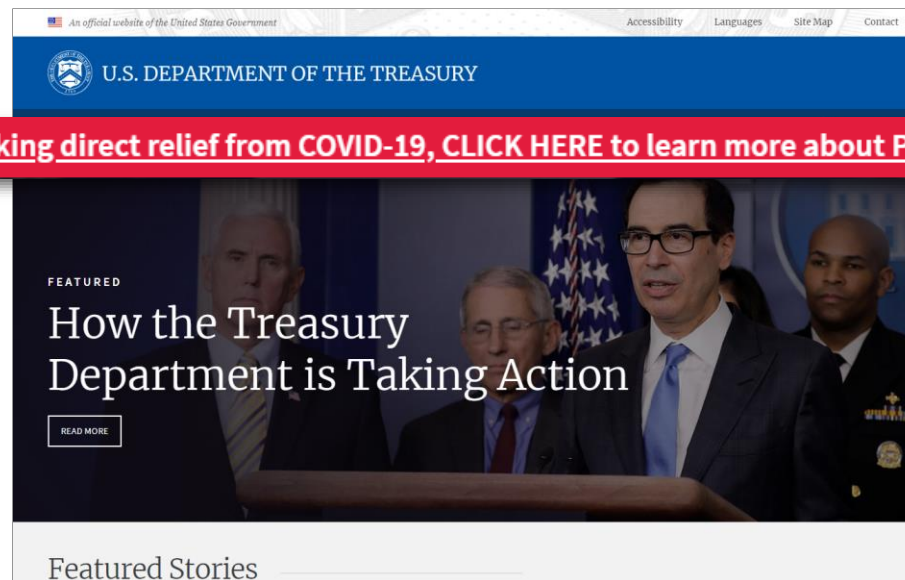
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Helpful Resources

www.treasury.gov



www.novoco.com

Helpful Resources

www.novoco.com/covid-19

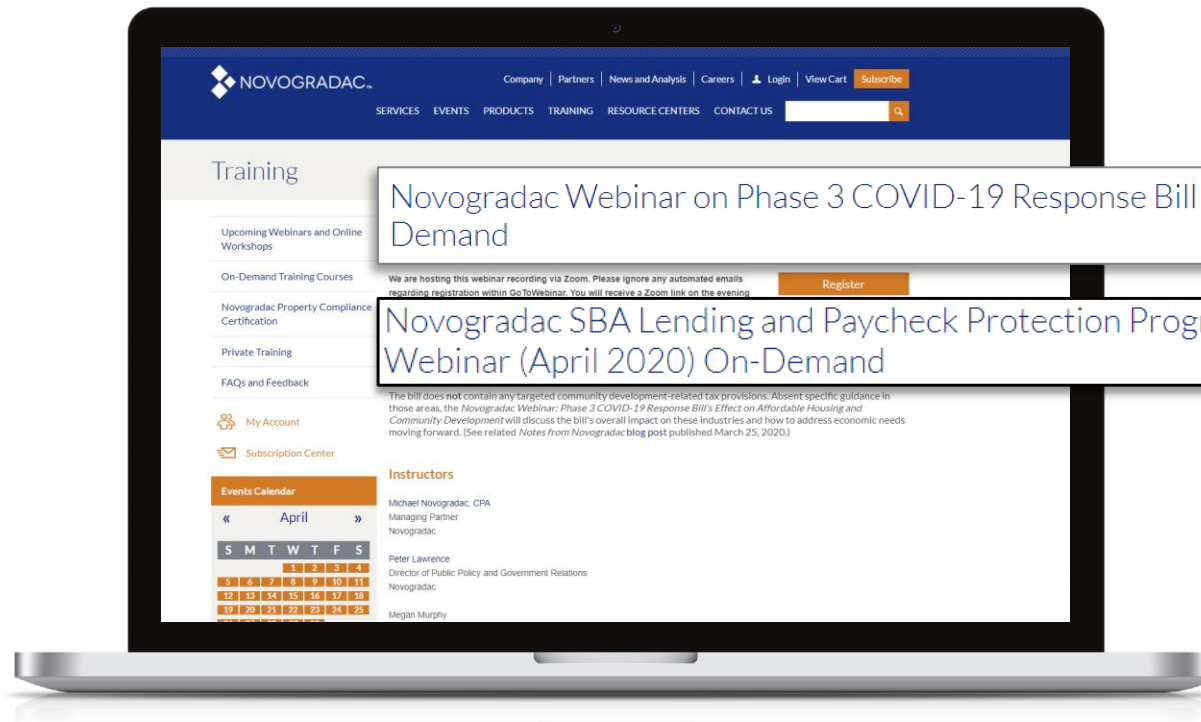


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Notes from
Novogradac

www.novoco.com/podcast



@Novogradac



Michael Novogradac @Novogradac · Mar 25

[#coronavirus](#) relief bill Las passed Senate 96-0. Next step the House. House expected to review bill Thursday, and vote on Friday. House is on recess, so need unanimous consent vote. [#StayTuned](#)



Michael Novogradac @Novogradac · Mar 25

Now 95-0. [#Coronavirus](#) keeping some Senators from voting, so won't reach 100. twitter.com/Novogradac/sta...

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Capital Markets & Economic Update *For Mid-Market Business*

Anthony Delfre, Managing Director

*Brown Gibbons Lang
& Company*



The COVID-19 pandemic has accelerated in the United States in the last several weeks, temporarily shutting down most of the American and global economy. The commercial real estate industry has been hit particularly hard, specifically related to hotels and restaurants. As a result of this temporary shutdown of businesses and restrictions, a recession in the U.S. and global economies is imminent. While the length of this downturn is the key question, reports suggest that in the short term, unemployment is expected to more than double and second quarter GDP in the U.S. is expected to drop by ~40%. U.S. and world central banks and fiscal authorities have acted swiftly to aid the economy.

Commercial real estate capital markets felt the brunt of this rapid slowdown in the form of slower sales and financing transactions in the last couple weeks. This slowdown is expected to continue until there is a material improvement in the COVID-19 caseload and restrictions on freedom of movement and forced government shutdown of businesses are removed.

Despite the slowdown and several transactions falling out of contract or financings canceled, many deals are still moving forward. The debt and equity capital markets are and will remain open during this crisis as most industry professionals believe the crisis to be short-term, which does not fundamentally alter the long-term outlook towards commercial real estate.

Federal Legislation

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) into law. The CARES Act includes \$2 trillion in relief measures for loan programs to businesses, providing support to workers and families, enacting tax relief for businesses, and aiding state and local governments. Several provisions of the CARES Act provide support to specific real estate businesses, investors and projects. Below is an overview of those real estate-related provisions.

Tax Provisions

- Depreciation of Qualified Improvement Property
- Five-Year Carryback for Net Operating Losses
- Loss Limitations for Taxpayers Other than Corporations
- Alternative Minimum Tax (AMT) Credits
- Net Interest Deduction Limitation

Residential Provisions

- Forbearance of Payments for Federally Backed Mortgages
- Foreclosure Moratorium and Consumer Right to Request Forbearance
- Eviction Moratorium on Federally Backed Properties

Loan Programs & General Support

- Small Business Paycheck Protection Program
- Mid-Size Business Loan Program and Credit Facility
- Temporary Relief from Troubled Debt Restructuring Disclosures
- Pandemic Unemployment Assistance
- Recovery Rebates

Additional Federal Legislation

During the week of April 20th, Congress passed the Paycheck Protection Program and Health Care Enhancement Act, providing \$484 billion in relief due to the widespread economic injury caused by the COVID-19 public health emergency. The first portion of the Enhancement Act replenished the funds available to small businesses through the Paycheck Protection Program ("PPP"). The CARES Act created the \$349 billion PPP on March 27, 2020, but the program ran out of money within weeks. The Enhancement Act provided an additional \$310 billion to the PPP. The terms of the program are unchanged, except \$60 billion is reserved for loans made by small lenders.

The Enhancement Act also provides additional funds for emergency Economic Injury Disaster Loan grants. There is an additional \$10 billion available for EIDL grants (on top of the initial \$10 billion appropriated by the CARES Act), and an additional \$50 billion available for EIDL loans.

What Is The Paycheck Protection Program (PPP)?

A new loan program at SBA for small businesses, self-employed, and gig workers. If employers maintain payroll, the loans would be forgiven

How Much?

The maximum size of the loan is 250% of an employer's average monthly payroll cost during the period Feb. 15, 2019 to June 30, 2019, capped at \$10 million

How Can I Use It?

Employee compensation; cash tips or equivalents; vacation, parental, family, medical, or sick leave; payment required for providing group health care benefits; payment of retirement benefits; and payroll taxes

Any compensation or income of a sole proprietor or independent contractor no greater than \$100,000 in one year

Payment of interest on mortgage obligations, rent, utilities, and interest on pre-existing debt obligations

What Is An Economic Injury Disaster Loan (EIDL)?

A low-interest, fixed rate loan that can provide up to \$2 million in assistance for small businesses that can be used to pay immediate expenses during an emergency

What Is An EIDL Grant?

The CARES Act creates a new \$10 billion grant program, leveraging SBA's Office of Disaster Assistance to provide small businesses with quick, much-needed capital. A million small businesses are eligible to receive up to \$10,000

How Can It Be Used?

Any allowable purpose under the EIDL program

Provide paid sick leave, maintain payroll, and meet increased costs

Make rent or mortgage payments, and repaying unmet obligations

How Are Banks Reacting?

Community Banks

- Continue to prioritize applications for deals where they have outstanding loans
- Starting to reject applications from non-bank borrowers
- Generally, application decisions and funding are completed within a week from submission
- Brown Gibbons Lang Real Estate Advisors secured approval and funding within three days from Heartland Bank (Columbus, OH) for a hotel in Avon, Ohio

Regional Banks

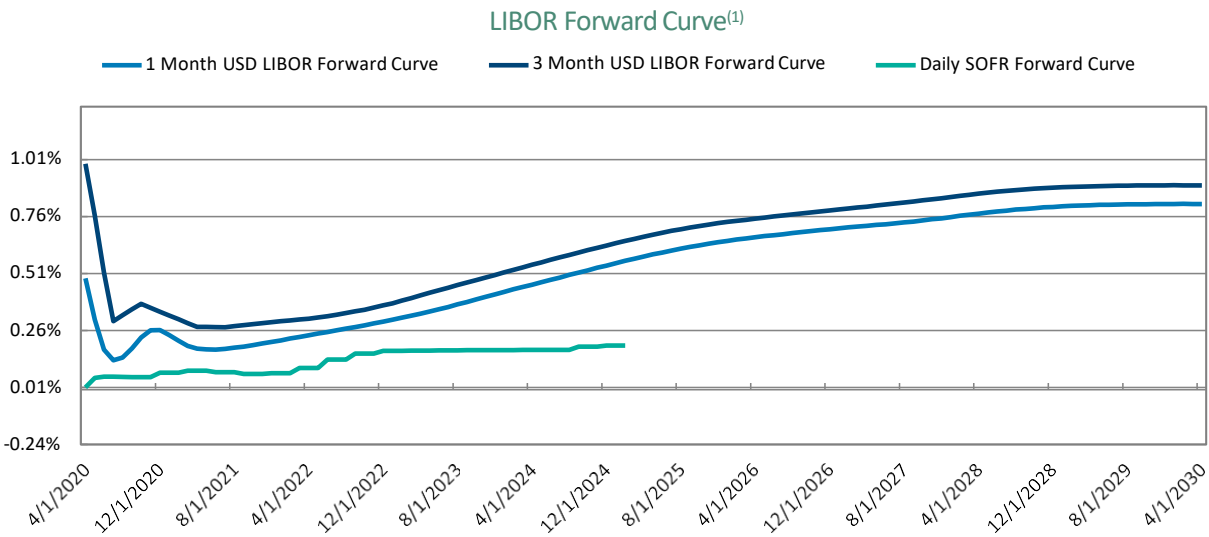
- Continue to be inundated with requests, requiring additional personnel to assist with applications
- Still accepting applications, but have indicated potential delays with approvals and funding
- Generally, application decisions and funding are completed in a week to two weeks from submission
- Brown Gibbons Lang Real Estate Advisors secured approval and funding within a week from PNC Bank for a hotel in Youngstown, Ohio

National Banks

- Indicated that clients are at risk of missing the first tranche of funding
- Beginning to reject new applications due to a substantial volume of requests
- Several lawsuits have been levied against national banks, accusing them of prioritizing small business borrowers seeking larger loan amounts
- Timing for application decisions and funding are unknown as clients are subject to a long queueing process

Capital Markets Update

Over the near term, investment activity in U.S. commercial real estate is expected to slow due to in-place restrictions and uncertainty regarding the lasting ramifications of COVID-19. Despite sufficient liquidity in the credit markets, lenders are increasingly shifting to asset managing their existing portfolios. This is particularly evident in the U.S. where lenders are focused on formulating policies and procedures on how to best manage and underwrite forbearance requests. Over the long term, real estate continues to offer insulated risk-adjusted returns that are less correlated to other asset classes, as evident during periods of increased volatility in the equities and commodities markets.



Spread (bps): BAA Corporate Bonds and 10 YRUST⁽²⁾



What Are We Seeing In The Market?

Industrial/Self Storage

- Steady demand for equity investments with strong sponsors
- Tepidness for new construction deals, but appetite for value-add opportunities
- Lenders implementing interest rate floors or an “all-in” rate on new loan originations

Multi-Family

- Amplified focus on May collections to review and assess ramifications from COVID-19
- Flexibility for financial restructurings involving SWAPs and interest rate floors
- Increased scrutiny for new construction deals due to lease-up risk

Hospitality

- Available debt characterized by lower leverage and higher interest rates
- Loan delinquency rates to increase to at least 30%, up from 1.4% in March 2020
- Canceled deals surge as investors call off over 30% of scheduled hotel property sales so far in April

Retail

- Retail CMBS loans delinquency rates in April have jumped to ~9.0% from ~1.7% in March
- Substantial widening of spreads between cap rates and 10 YR U.S. Treasury
- Grocery-anchored assets hold steady as investors seek safety

(1) Source: Chatham Financial
(2) Source: Real Capital Analytics

Brown Gibbons Lang and Co.Overview

Independent | Middle Market Focused | Deep Industry Expertise | Global Access

Founded in 1989

BGL has a successful 30 year history

50+

Investment Banking Professionals

15

Senior Bankers with International
Partner Firms Across 35 Countries

21

Transactions Completed in 2018

\$2.1B

In Sell-Side Transaction Value in 2018

Middle Market Focus

Independent advisory firm with long-standing commitment to sell-side M&A advisory in the middle market.

Tenured Senior Team

Broad experience and commitment to deal execution.

Deep Relationships

Tenured relationships with premier private equity firms and large strategic acquirers.

Sector Expertise

Dedicated coverage and execution teams across our core verticals.

M&A and Private Capital Transactions

Extensive transaction experience with high success rates on engagements.

Leading Diversified Investment Bank



Consumer



Healthcare &
Life Sciences



Diversified
Industrials



Environmental &
Industrial Services



Metals &
Metals Processing



Real Estate



Business Services

Global Presence & Execution Capabilities

35 +

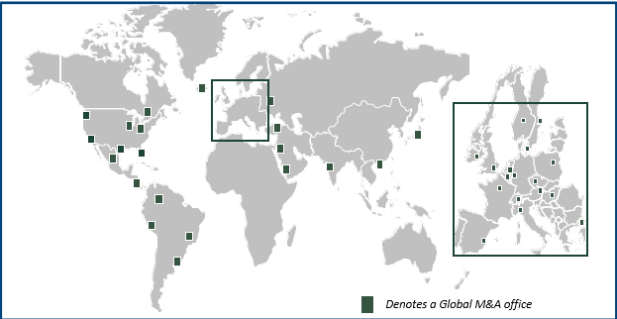
Partner firms covering all major
economies of the world

1,500 +

Transactions completed globally in
the last five years

\$50 + billion

Aggregate transaction value
completed globally in the last five
years.



*Domestic Offices in Cleveland, Chicago, Philadelphia,
and New York*

Industry Verticals



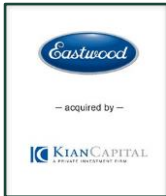
Consumer



Group Head:
John Tilson

- eCommerce
- Consumer Retail Services
- Enthusiast Brands
- Outdoor & Recreational Products
- Specialty Retail
- Food & Beverage
- Supply Chain Management
- Apparel
- Infant / Children's Products
- Housewares & Kitchen Products

Representative Sector Transactions



Environmental & Industrial Services



Group Head:
Effram Kaplan

- Special Waste
 - i. Liquids
 - ii. Hazardous
 - iii. Used Oil Processing
- Energy Services
- Remediation & Reclamation
- E-Waste and Metals Recycling
- Transportation & Logistics
- Solid Waste
 - i. Collection & Hauling
 - ii. Landfills & Disposal
 - iii. Recycling
- Environmental and Industrial Services
- Environmental Engineering & Consulting
- Waste-to-Energy

Representative Sector Transactions



Healthcare & Life Sciences



Group Head:
John Riddle

- Medical Products & Equipment
- Biopharmaceuticals
- Diagnostics
- Healthcare IT
- Managed Care
- Medical Devices
- Healthcare Providers
- Research Tools & Services

Representative Sector Transactions



Diversified Industrials



Group Head:
Andrew Petryk

- Industrial Distribution & Logistics
- Industrial Technology
- Capital Equipment
- Industrial Automation & Controls
- Construction & Building Products
- Rubber Compounding
- Engineered Materials
- Test & Measurement
- Automotive Components & Systems
- Plastics & Packaging

Representative Sector Transactions



Metals & Metals Processing



Group Head:
Vince Papparlardo

- Distribution & Service Centers
- Metals Recycling
- Precision Processing & Fabrication
- Pipe & Tube Manufacturers
- Integrated Mills
- Welding
- Forging & Stamping
- Iron & Steel Foundries

Representative Sector Transactions



Real Estate



Group Head:
Anthony Delfre

- Real Estate
 - i. Capital Markets
 - ii. Asset Management
- Investment Sales/ Brokerage
 - i. Healthcare
 - ii. Industrial
 - iii. Multi Family
 - iv. Hospitality

Representative Sector Transactions



Business Services



Group Head:
Peter Hill

- PEO / ASO and HRO
- Payroll and Payroll Processing
- HR Technology
- Benefits Administration
- Staffing and Recruiting

Representative Sector Transactions





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QUESTIONS?



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