

CORPORATE ADVISORY

CARES Act Summary: Economic Stabilization and Assistance to Severely Distressed Industries



Title IV of the Coronavirus Aid, Relief, and Economic Stability Act (CARES Act), which was enacted into law on March 27, 2020, provides \$500 billion to the U.S. Treasury's Exchange Stabilization Fund to provide liquidity in the form of loans, loan guarantees, and investments in the Federal Reserve to support eligible businesses in certain industries and states and municipalities.

KEY TAKEAWAYS

The \$500 billion is allocated as follows:

1. \$25 billion in the form of loans and loan guarantees to air carriers
2. \$17 billion in loans and loan guarantees to businesses considered critical to maintaining national security
3. \$4 billion in loans and loan guarantees to cargo air carriers
4. \$454 billion in the form of loans, loan guarantees, and investments in support of facilities established by the Federal Reserve to support lending to eligible businesses, states, and municipalities

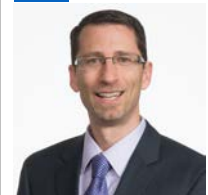
SUMMARY

Direct Lending Program

With respect to the \$46 billion allocated for assistance to passenger air carriers, cargo air carriers, and national security-related businesses under 1, 2, and 3 above, the U.S. treasury secretary is required to publish loan, loan guarantee, and investment eligibility requirements and application procedures within 10 days following enactment. The U.S. treasury secretary will have broad discretion and authority to make loans and provide loan guarantees within certain parameters. The loans and loan guarantees may not have a duration longer than five years. Interest rates on any loans shall be determined based on current



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prevailing market rates. The loans cannot be forgiven. Businesses eligible for loans must be domiciled in the United States and their employees must be predominately located in the United States. Any eligible business must be able to demonstrate that no alternative financing is reasonably available, that the loan is prudently incurred, that there is sufficient collateral for the loan, and that the eligible business has incurred or is expected to incur losses due to the coronavirus pandemic that jeopardize the continued operation of the business.

In the event an eligible business receives a loan or a loan guarantee, that business will be prohibited from buying back its own stock, paying any dividends or capital distributions, or reducing its workforce by more than 10 percent within the 12-month period following the maturity or payoff of the loan or the expiration of the loan guarantee. There are also considerable restrictions on executive compensation during that same one-year period.

Financing Through the Federal Reserve

General: With respect to the \$454 billion allocated under number 4 above (plus any additional funds remaining from the \$46 billion authorized under 1, 2, and 3 above, after all loans, loan guarantees, and investments are granted), the U.S. treasury secretary is authorized to support lending to eligible businesses, states, and municipalities through programs offered through the Federal Reserve. The term "eligible business" is defined as air carriers and any business that has not otherwise received adequate economic relief under the CARES Act. Businesses eligible for loans must be domiciled in the United States and their employees must be predominately located in the United States.

In the event an eligible business receives a loan or a loan guarantee under a Federal Reserve program, that business will be subject to the same employee compensation and equity buy-back restrictions as air carriers and national security-related businesses. These restrictions are, however, subject to waiver by the U.S. treasury secretary if he determines that the waiver is necessary to protect the interests of the federal government.

Assistance to Mid-Sized Businesses: As one of the programs to be offered through the Federal Reserve, Title IV of the CARES Act instructs the U.S. treasury secretary to develop and implement a facility or program that provides financing to banks and other lenders to make direct loans to eligible businesses, including nonprofit entities, with between 500 and 10,000 employees, with an annual interest rate not to exceed 2 percent, with no principal and interest due on such loans for at least six months. Any eligible borrower under this program must certify that: (i) the loaned funds are necessary to support the ongoing operations of the business, (ii) the loaned funds will be used to retain at least 90 percent of the loan recipient's workforce through September 30, (iii) the loan recipient intends to restore at least 90 percent of its workforce (that existed on February 20) and to restore all compensation and benefits within four months following the end of the coronavirus response, (iv) the business is a U.S.-domiciled business with the majority of its employees located in the United States, (v) the business is not a debtor in a bankruptcy proceeding, (vi) the business will not pay any dividends while the loan is outstanding, (vii) the business will not outsource or offshore jobs for two years following repayment of the loan, (viii) the business will not abrogate any existing collective bargaining agreements for two years following repayment of the loan, and (ix) the business will remain neutral in any union organizing efforts during the term of the loan.

Main-Street Business Loan Program: In addition to the mid-sized business assistance described above, the Federal Reserve is also encouraged to establish and implement a loan program that supports

lending to small-to-medium-size businesses on terms and conditions that the Federal Reserve Board of Governors may establish.

States and Municipalities: The U.S. treasury secretary will endeavor to implement a program or facility that provides liquidity to states and municipalities.

WHAT'S NEXT

The U.S. treasury secretary will publish requirements and application procedures for the Direct Lending Program within 10 days following enactment. The U.S. treasury secretary and the Federal Reserve continue to develop and implement programs for financing through the Federal Reserve.

Be sure to check our [COVID-19 Resource Hub](#) to stay up-to-date on new regulations and supplemental guidance regarding the CARES Act.

QUESTIONS

Please reach out to any member of [our team](#) with questions about any of the options or the application processes now available through Title IV of the CARES Act.