



National Association of Development Companies

# ECONOMIC AID ACT – NEW COVID RELIEF INFORMATIONAL WEBINAR

JANUARY 8, 2021

# PRESENTERS



**Rhonda Pointon**  
*President & CEO*



**Wayne Williams**  
*Executive Vice President*



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*Legislative Consultant*



# OPENING COMMENTS & ACKNOWLEDGEMENTS

- Temporary Fee Eliminations for 504
- CARES Act Section 1112
  - Tax Implications
  - Additional Relief for Qualifying Loans
- Changes to 504 Debt Refinance Loan Programs
- SBA 504 Express Loan Program
- Changes to Community Advantage Loan Program
- Payment Protection Program (PPP) Second Draw Loans

# TODAY'S AGENDA

**DISCLAIMER** – NADCO’s discussion today includes information from the Economic Aid Act passed by Congress. All information is subject to full pending SBA implementation guidance and much remains uncertain until that is received.

## DISCLAIMER

- **All provisions of the new law are subject to –**
  - Congressional appropriation (funding)
  - Full SBA implementation – required Regulations, Notices, updated SOPs, revised forms
- **Full implementation will take time**
  - NADCO will keep the industry updated with information as available



# TEMPORARY FEE ELIMINATIONS

SBA 504

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## TEMPORARY FEE ELIMINATIONS FOR 504

- From new loan approvals from date of enactment of new law (December 27, 2020) through September 30, 2021
- Waives **0.5% Third Party Lender Participation Fee** – on loan in senior lien position in 504 project
- Waives **1.5% CDC Processing Fee** (in debenture pricing)
  - Offset with appropriation to fund fee to CDC
- SBA guidance expected to address handling of all loans in process at SLPC



# CARES ACT SECTION 1112

TAX IMPLICATIONS

DEBT RELIEF



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# TAX IMPLICATIONS

- **CARES Act Section 1112 Payment Subsidies**
  - Will not be treated as taxable income to the borrower for federal income tax purposes
  - Any tax deduction arising from these payment subsidies will accrue to the borrower as if the payment were made by the borrower
- **Also exempt from federal taxation**
  - PPP Debt Forgiveness
  - Advances and Grants under EIDL Program
- **Small businesses should consult their tax professional for specific guidance on tax issues**

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## DEBT RELIEF UNDER CARES ACT SECTION 1112

- **Congressional Appropriation**
  - \$3.5 billion to extend payments to existing and new SBA borrowers in the 7(a), Community Advantage, 504 and Microloan programs
- **Qualifying Loans made approved prior to CARES Act (March 27, 2020)**
  - 6 months of payment subsidies
    - Funded borrowers & borrowers coming off deferment may have already received or been allocated this relief under original CARES Act
  - 3 months of payment subsidies starting February 1, 2021 capped at \$9,000 per loan per month
  - Additional 5 months (after 3-months) payment subsidies for loans to “underserved”, capped at \$9,000 per loan per month
    - Community Advantage loans and Microloans
    - Hard-hit NAICS code loans [7(a) and 504 loan programs]

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## HARD HIT NAICS CODES

| NAICS Code | Industry                                  | NAICS Code | Industry  |
|------------|---|------------|---|
| <b>61</b>  | Educational Services                      | <b>485</b> | Transit, Rail, Bus, Taxi, Limo  |
| <b>71</b>  | Arts, Entertainment, and Recreation       | <b>487</b> | Scenic and Sightseeing Transportation   |
| <b>72</b>  | Accommodation & Food Services             | <b>511</b> | Newspaper, Books, etc. Publishing   |
| <b>213</b> | Support Activities for Mining             | <b>512</b> | Motion Picture, Video, Sound Recording Industries   |
| <b>315</b> | Apparel Manufacturing                     | <b>515</b> | Radio and TV Broadcasting   |
| <b>448</b> | Clothing and Clothing Accessories Stores  | <b>532</b> | Rental & Leasing – equipment, consumer goods, etc.  |
| <b>451</b> | Sporting Goods, Hobby, Book, Music Stores | <b>812</b> | Personal and Laundry Services   |
| <b>481</b> | Air Transportation                        |            | <a href="https://www.census.gov/eos/www/naics/">https://www.census.gov/eos/www/naics/</a> |

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## DEBT RELIEF UNDER CARES ACT SECTION 1112

- **Qualifying Loans made approved during original CARES Act (March 27, 2020 – September 27, 2020)**
  - 6 months of payment subsidies
- **Qualifying Loans approved February 1, 2021 – September 30, 2021**
  - 6 months of payment subsidies, capped at \$9,000 per loan per month
- **Loans approved September 27, 2020 – January 31, 2021**
  - No payment subsidies
  - Why? Congressional intent of Section 1112 payment subsidies is to provide “relief” to existing borrowers in place at the onset of the pandemic and to stimulate new loans that would not otherwise occur because of the pandemic



# BREAK 1 – QUESTIONS AND ANSWERS



# CHANGES TO 504 DEBT REFINANCE LOAN PROGRAMS

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## 504 DEBT REFINANCE WITHOUT EXPANSION

- Elimination of prohibition on refinance of any government-guaranteed debt
- Elimination of requirement that 504 Debt Refinance without Expansion be suspended if the 504 Loan Program goes on subsidy
- Elimination of 50% cap – CDC’s volume of new refinance approvals cannot exceed 50% of the dollars the CDC loans under the 504 Loan Program during the previous fiscal year
- Reduction from 2 years to 6 months required time that Qualified Debt must be in place for refinance eligibility
- Elimination of requirement that loan must have been current for not less than 1 year prior to application date
- Reinstatement of Alternate Job Retention Goal – all existing jobs may be counted as jobs retained (full-time and full-time equivalent jobs allowed)

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## OTHER 504 DEBT REFINANCE CHANGES

- **504 Debt Refinance With Expansion**
  - Increase in amount of debt eligible for refinance from 50% of expansion costs to **100% of expansion costs**
- **Refinancing Senior Project Debt**
  - During the 1-year period following enactment of the law, a CDC can process a cash-out subordination to re-leverage the TPL loan to a **total 90% loan to value (LTV)** when combined with the outstanding balance on the existing 504 loan
  - Proceeds can be used to support business operating expenses





# SBA 504 EXPRESS LOAN PROGRAM

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## 504 EXPRESS LOAN PROGRAM

- Temporary Program until **September 30, 2023**
- CDC must be approved under Accredited Lenders Program (**ALP**)
- Delegated authority to approve, authorize, close, and service 504 loans of **\$500,000 or less**
- Does **not** include loans to borrower in industry with **high default rate**
  - Determined annually and published by SBA
- Eligibility is subject to final review and acceptable
  - SBA shall not review CDC decisions involving creditworthiness, loan closing, or compliance with legal requirements imposed by law or regulation



# BREAK 2 – QUESTIONS AND ANSWERS



# CHANGES TO COMMUNITY ADVANTAGE LOAN PROGRAM

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# COMMUNITY ADVANTAGE LOANS

- **Temporary increase in guaranty to 90%**
  - Applies to all 7(a) loans including Community Advantage
  - Until September 30, 2021
- **Temporary Fee Elimination**
  - Up front guaranty fee
  - Ongoing annual fee
  - Until September 30, 2021



# HIGHLIGHTED CHANGES TO PAYMENT PROTECTION PROGRAM (PPP)

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# PAYCHECK PROTECTION PROGRAM CHANGES

- **Available through March 31, 2021**
  - Targeted to smaller and harder-hit businesses
  - Generally, follows implementation guidance from round 1 of PPP with delegated authority to lender
- **Set-asides for community and smaller lenders**
  - \$15 billion across first and second draw PPP loans for lending by **community financial institutions (CFIs)**
    - CDCs, CDFIs, MDIs, Microlenders
    - CFIs have **exclusive access** to PPP loan portal for **at least two days** when portal re-opens
  - \$15 billion across first and second draw PPP loans for lending by small lenders
    - Banks, Credit Unions, & Farm Credit Institutions with less than \$10 billion in assets
- **Set-asides for targeted borrowers**
  - \$35 billion for **new** first draw PPP borrowers
  - \$15 billion and \$25 billion for first draw and second draw PPP loans, respectively –
    - For borrowers with a maximum of 10 employees, **or**
    - For loans less than \$250,000 to borrowers in low-or moderate-income neighborhoods

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## PAYCHECK PROTECTION PROGRAM CHANGES – IMPLEMENTATION

- **First Draw PPP loan** – borrower can only apply once for first draw PPP loan
- **Second Draw PPP loans**
  - Borrowers that have already received a PPP loan
  - Must show a 25% revenue reduction from one quarter in 2020 compared to 2019, or for the entire year
- **Loan Terms**
  - Loan amount
    - Up to 2.5x average monthly payroll costs during year prior to loan or previous calendar quarter up to a maximum \$2 million
    - NAICS Code 72 (Accommodation and Food Services) eligible for up to 3.5x average monthly payroll costs up to a maximum of \$2 million
    - Can use either 2019 or 2020 payroll costs
  - 1% interest rate
  - Loan maturity is 5 years
- **For more specific information** – consult SBA’s Interim Final Rules; see [NADCO.org](https://www.nadco.org) for details



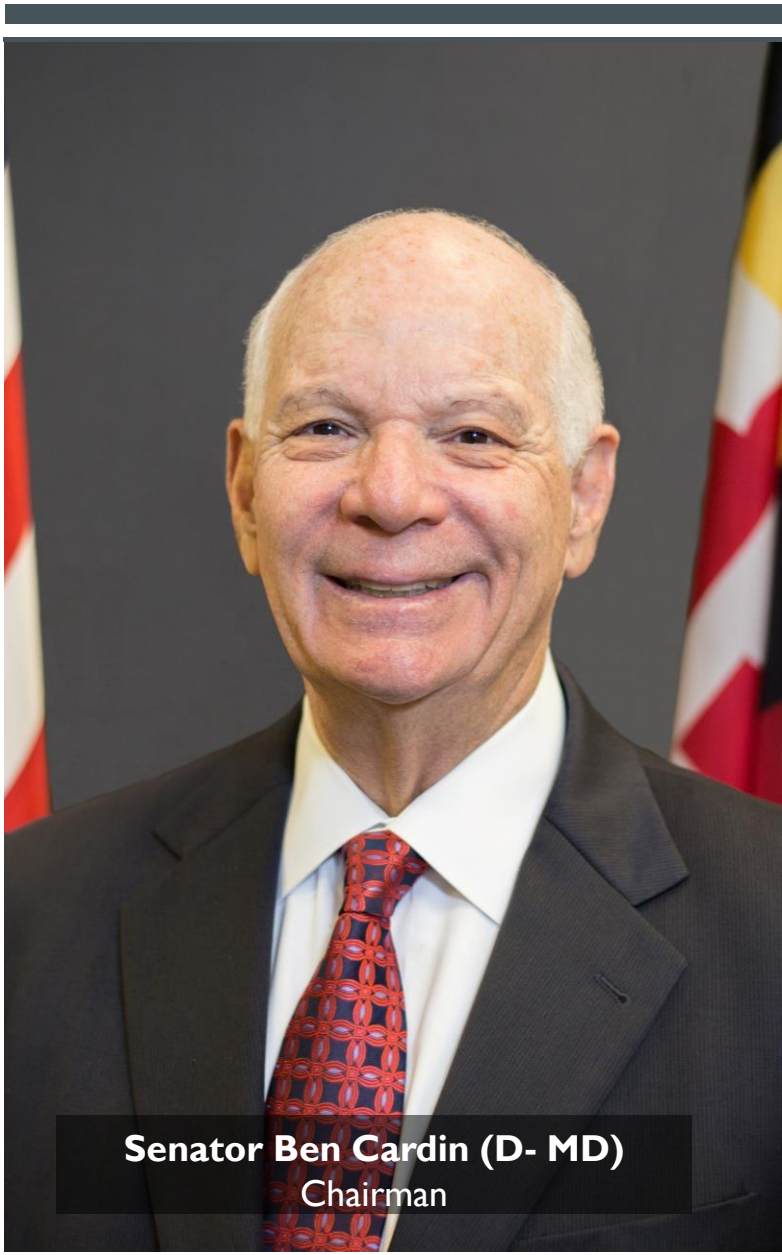


# BREAK 3 – QUESTIONS AND ANSWERS

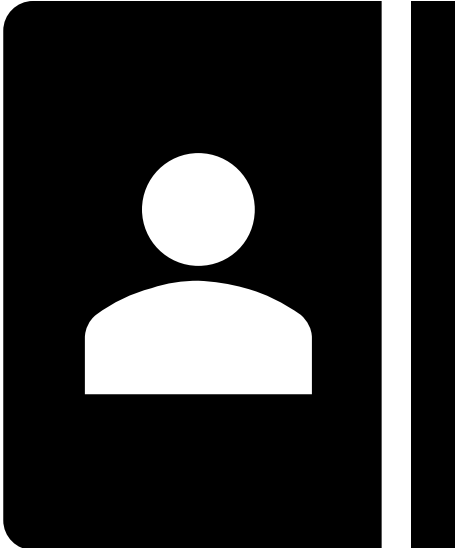


# CLOSING COMMENTS

NADCO WILL CONTINUE TO KEEP THE  
INDUSTRY INFORMED AS SBA RELEASES  
DETAILED REGULATIONS AND GUIDANCE



**Senator Ben Cardin (D- MD)**  
Chairman



**Senator \_\_\_\_\_ (R- \_\_ )**  
Ranking Member

117<sup>TH</sup> CONGRESS

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SENATE COMMITTEE  
ON  
SMALL BUSINESS  
AND  
ENTREPRENEURSHIP

# 117<sup>TH</sup> CONGRESS

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## HOUSE COMMITTEE ON SMALL BUSINESS



Rep. Nydia Velazquez (D-NY),  
Chairwoman



Rep. Blaine Luetkemeyer (R-MO), Ranking

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# ISABEL GUZMAN

PRESIDENT-ELECT BIDEN  
NOMINATES ISABEL GUZMAN  
TO LEAD THE SMALL BUSINESS  
ADMINISTRATION

