

US CARES ACT SUMMARY



MARCH 27, 2020

US CONGRESS PASSED THE LARGEST EVER PEACETIME STIMULUS PACKAGE – THE \$2.2 TRILLION CARES ACT

Key elements of the Coronavirus Aid, Relief, and Economic Security (CARES) Act

Government Entities



> \$150 BN

Includes:

- \$45 BN in disaster relief for state and local governments
- \$30 BN in emergency education funding
- \$35 BN in emergency transit funding

Hospitals



\$130 BN

Includes:

- \$65 BN directly to hospitals
- \$35 BN to doctors, nurses, and supplies
- The remainder towards Medicare reimbursements and medical research

Distressed Businesses

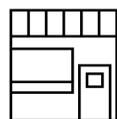


\$500 BN

Includes:

- \$29 BN for direct financial aid to struggling airlines and air cargo carriers
- \$454 BN for loans and other investments by the Fed and Treasury to provide liquidity to the financial system

Small Businesses

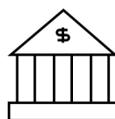


\$377 BN

Includes:

- \$349 BN in small business loans through the Payment Protection Program (PPP)
- \$10 BN for Small Business Administration (SBA) emergency grants

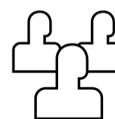
Financial Institutions



Includes:

- Delay to implementation of FASB's Current Expected Credit Losses (CECL)
- Loan modifications related to COVID-19 do not have to be categorized as Troubled Debt Restructurings (TDRs)

Individuals



> \$450 BN

Includes:

- Direct payments of \$1,200 to most Americans¹
- \$250 BN in unemployment benefits
- Payment deferrals for federally backed mortgages and student loans

1. Individuals who earn \$75,000 in adjusted gross income or less would get direct payments of \$1,200 each, with married couples earning up to \$150,000 receiving \$2,400 and an additional \$500 per each child. The payment would scale down by income, phasing out entirely at \$99,000 for singles and \$198,000 for couples without children

US GOVERNMENT \$2.2 TN COVID-19 STIMULUS PACKAGE (1/4)

Over \$150 BN in stimulus funding for state and local governments

- Includes \$45 BN for the Disaster Relief Fund to provide financial assistance to state, local, tribal, and territorial governments, as well as private nonprofits
- Increases the amount the Agriculture Department can spend on its bailout program from \$30 BN to \$50 BN (To be confirmed)
- Also provides \$30 BN in emergency education funding and \$35 BN in emergency transit

\$130 BN of funding for hospitals

- \$65 BN will go directly to hospitals, \$35 BN to doctors, nurses, and supplies, while \$1 BN will go to the Indian Health Service and the remainder will go towards medical and testing supplies, Medicare reimbursements, and medical research

For all businesses, the CARES Act offers:

- Deferral of tax payments (e.g., payroll taxes)
- Tax relief (e.g., carrybacks of net operating losses, recovery of alternative minimum tax credits, increasing deduction of business interest expense)
- An employee retention tax credit to incentivize businesses to keep workers on payroll during the crisis
- An income tax exclusion for making payments towards an employee's student loan expenses
- A reversal some of the limitations on tax deductions and losses introduced in the Tax Cuts and Jobs Act of 2017 (the "TCJA")

US GOVERNMENT \$2.2 TN COVID-19 STIMULUS PACKAGE (2/4)

\$500 BN in loans for distressed companies

- Includes \$25 BN in direct financial aid to struggling airlines, \$4 BN for air cargo carriers, and \$17 BN for other distressed companies related to critical national security (e.g., Boeing)
- The remaining \$454 BN may be used by the Fed and Treasury to make loans, loan guarantees to, and other investments in, programs or facilities established by the Fed (e.g., MMLF, CPFF) and companies to provide liquidity to the financial system, including the implementation of an FRB program for mid-sized (5-10k employees) businesses. Fed Chairman Powell said in an interview on March 26 that “\$1 of loss-absorption, of back-stop from Treasury, is enough to support \$10 worth of loans,” indicating the Fed will, on average, use a 10% leverage ratio to achieve up to \$4.5 TN in lending, which would effectively make the US Fed the largest bank in the world by assets
- Creates a Congressional Oversight Commission and a Treasury Department special inspector general position to review how the money is spent
- Establishes worker protections attached to all federal loans for businesses
- Companies that participate in these loans are subject to restrictions, including a stock buyback ban and restrictions on executive compensation during the term of their assistance plus one year, and they must retain 90% of employment levels as of March 24, "to the extent practicable," through September 30. The loans also cannot last longer than five years
- Bans businesses owned by the President, Vice President, members of Congress, and the heads of federal executive departments from receiving loans or investments through the corporate liquidity program. The prohibition also applies to their children, spouses, and in-laws

US GOVERNMENT \$2.2 TN COVID-19 STIMULUS PACKAGE (3/4)

\$377 BN to support small businesses (generally <500 employees), including:

- \$10 BN for Small Business Administration (SBA) emergency grants, each of which may not exceed \$10,000, to provide immediate relief for small business operating costs
- \$349 BN in small business loans for the Payment Protection Program (PPP)
 - Relaxes some rules and requirements for obtaining one of these loans
 - PPP loans may be partially forgiven for payroll costs, interest on mortgages, rent and utilities expenses incurred, for which the SBA will reimburse lenders, including interest accrued through the date of payment. The amount of loan forgiveness is reduced by any reduction in the average number of monthly FTEs and/or any reduction in salary/wages in excess of 25% for employees making less than \$100k/year during the eight weeks following the loan disbursement
 - Lenders are restricted to an interest rate cap at 4% and must provide complete payment deferral for at least six months
 - Financial institutions may risk-weight these loans at 0% for regulatory capital purposes
- \$17 BN for SBA to cover 6 months of payments for covered loans (under 7(a) or 7(m) of the Small Business Act, or Title V of the Small Business Investment Act, but does not include PPP loans)

Financial institutions are offered relief for existing and imminent regulatory requirements

- No financial institution is required to comply with the FASB Accounting Standards Update No. 2016-13 regarding current expected credit losses (CECL) until the earlier of the termination of the COVID-19 national emergency and December 31, 2020
- Loan modifications related to COVID-19 do not have to be categorized as Troubled Debt Restructurings (TDRs) until the earlier of 60 days after the termination of the COVID-19 national emergency and December 31, 2020
- FDIC and NCUA remove caps on maximum guarantees as long as the increases end by the end of 2020
- The OCC is temporarily permitted to waive the limit on loans and other extensions of credit to nonbank financial companies until the earlier of the termination of the COVID-19 national emergency and December 31, 2020

US GOVERNMENT \$2.2 TN COVID-19 STIMULUS PACKAGE (4/4)

Relief for individuals and families (>\$450 BN)

- Individuals who earn \$75,000 in adjusted gross income or less would get direct payments of \$1,200 each, with married couples earning up to \$150,000 receiving \$2,400 and an additional \$500 per each child. The payment would scale down by income, phasing out entirely at \$99,000 for singles and \$198,000 for couples without children
- Increases food stamp benefits (SNAP) by ~\$15 BN (To be confirmed)
- \$200 BN for other “domestic priorities,” including child care and assistance for seniors
- For federally backed mortgages, provides forbearance, forbids fees, penalties, or additional interest to be charged for late payments, and protections against foreclosures and evictions, and defers federal student loan payments through Sept. 30, 2020
- The 10% penalty for withdrawals from tax-favored retirement plans (i.e., before the participant reaches age 59 1/2) is waived for distributions in 2020, up to \$100,000 of withdrawals
- \$250 BN in unemployment insurance benefits
 - Provides 4 months of unemployment benefits offering workers an additional \$600 a week for four months (on top of what state unemployment programs pay), and is extended to gig economy workers, freelancers, and furloughed workers

SOURCES

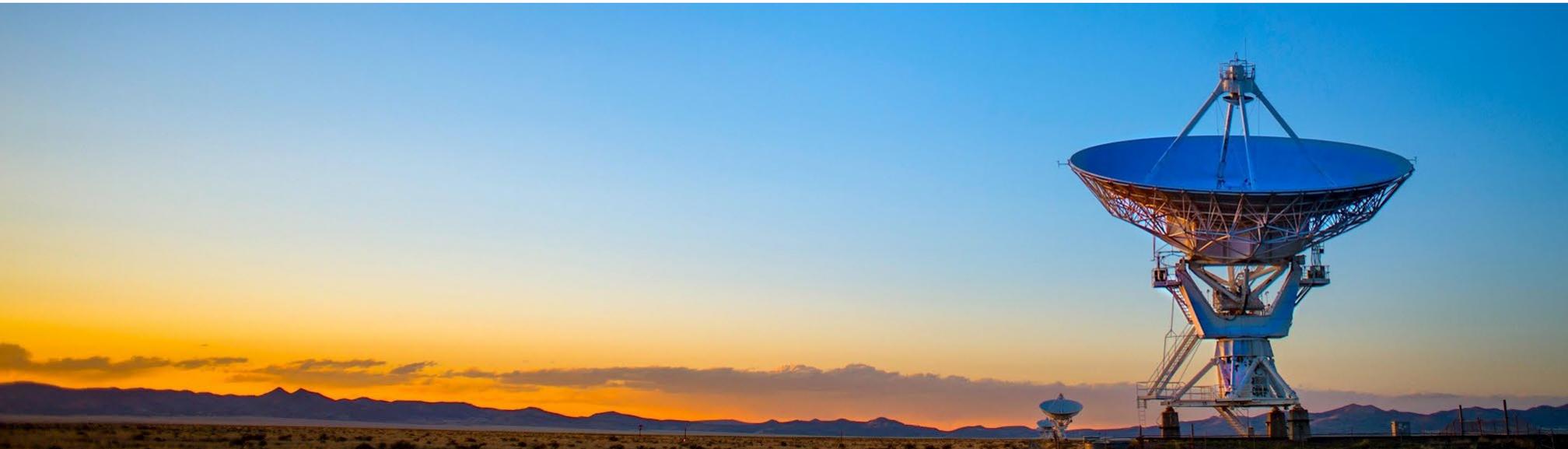
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