

Family Business Resource Center PPP Webinar Series

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June 17, 2020



Presenters:



Tim Fogerty, Managing Director, Commercial Banking- First Bank



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AGENDA

- PPP Flexibility Act: Tim Fogerty, First Bank
- Mid-Year Update: David Presson, First Bank

Disclaimer

This presentation is furnished for informational use only. It is not intended to be comprehensive, nor does it constitute legal, accounting, tax or other professional advice. We encourage you to consult with your legal, tax and/or accounting professional for specific advice. This presentation is based on information available as of the first date and time of delivery of this presentation. Due to the evolving nature of the regulations and agency guidance addressing the Paycheck Protection Program, all information in this presentation is subject to change without notice.

First Bank recommends a thorough review of the CARES Act, PPP Flexibility Act, and SBA Interim Final Rules, these documents can be found at [FirstBanks.com](https://www.firstbanks.com)

PPP Flexibility Act (PPPFA)

- The PPPFA was signed into law on June 5, 2020.
- Interim Final Rules (IFR) for the Act was released on June 11, 2020.
- SBA has not released their guidance on the PPPFA.
- SBA has not released a revised Loan Forgiveness Application (3508) or supporting schedules.

PPP Flexibility Act (PPPFA)

Eligible Expenses Flexibility:

- Lowered the requirement that 75% of borrower's loan proceeds and forgiveness amount must be used for payroll costs. This was lowered to 60%.
- Partial Forgiveness: if borrower uses less than 60% of the loan amount for payroll costs during the forgiveness covered period, the borrower will continue to be eligible for partial loan forgiveness.
- No changes in the payroll or eligible expenses.

PPP Flexibility Act (PPPFA)

Eligible Expenses Example:

Borrower receives a PPP Loan for \$100,000

- Payroll costs during covered period: \$54,000
- 54% of PPP loan for payroll costs
- Borrower is still eligible for forgiveness but cannot be forgiven more than \$90,000
- Calculation:
 - $\$54,000 \text{ of payroll costs} / 60\% = \$90,000$ (maximum forgiveness amount)
 - $\$90,000 - \$54,000 = \$36,000$ (max allowed for other expenses)
 - \$10,000 not forgiven, will be repaid by borrower

PPP Flexibility Act (PPPFA)

Covered Period Flexibility:

- Amended Definition of Covered Period:
“the period beginning on February 15, 2020 and ending on June 30, 2020” to “the period beginning on February 15, 2020 and ending on December 31, 2020”
- Provided option to extend the covered period for loan forgiveness from 8 weeks after the date of the loan disbursement to 24 weeks after the date of the loan disbursement.
- Provides substantially greater flexibility for borrowers to qualify for loan forgiveness.
- It appears that if the 24 week covered period option is selected, the application for forgiveness cannot occur until the end of the 24 week period.
- *More clarity is expected when SBA Guidance and the revised Forgiveness Form are released.*

PPP Flexibility Act (PPPFA)



Eight-week Covered Period:

- Borrowers who have already received a PPP loan prior to June 5, 2020 retain the option to use the 8 week covered period.
- It appears the change to a 60% Payroll Cost threshold for full forgiveness would apply for borrowers selecting the eight-week option.
- *More clarity is expected when SBA Guidance and the revised Forgiveness Form are released.*

PPP Flexibility Act (PPPFA)

Maturity Date for PPP Loans:

- Section 2(a) of the Flexibility Act amended the CARES Act to provide a minimum maturity date of 5 years for all PPP loans made on or after the date of enactment of the Flexibility Act: June 5, 2020.
- Loans made before June 5, 2020: the maturity date is 2 years; however, a borrower and lender may mutually agree to extend the maturity date of such loans to 5 years.
- Given the easing of forgiveness requirements, it is expected that the vast majority of PPP borrowers will not require extended terms.

PPP Flexibility Act (PPPFA)

Payment Deferral Period for PPP Loans:

- The original interest and principal deferral on the First Bank PPP Loan is 6 months from the date of the loan.
- PPP Flexibility Act: borrower will not have to make any payments of principal or interest on the loan before the date the SBA remits the loan forgiveness amount on the loan to the lender.
- Interest accrues during the deferment period. (Interest rate is 1%)
- First Bank is working on solutions for existing promissory notes to comply with the Flexibility Act.

PPP Flexibility Act (PPPFA)

Payment Deferral Period for PPP Loans:

- Borrowers who do not submit a loan forgiveness application to their lender within 10 months after the end of the loan forgiveness covered period, the borrower will be expected to begin paying principal and interest after that period.
- Example:
 - PPP Loan disbursed on June 25, 2020
 - 24 week covered period ends December 10, 2020
 - Borrower does not submit a PPP Loan Forgiveness application before October 10, 2021
 - Borrower must begin making principal and interest payments on or after October 10, 2021.

PPP Flexibility Act (PPPFA)

FTE Rule Exemptions:

- PPPFA expanded the exemption for borrowers to avoid a reduction in loan forgiveness amount when they have a reduction in full-time equivalent employees.
- The new Safe Harbor provides that if a borrower is unable to rehire previously employed individuals or similarly qualified employees, the borrower will not have its loan forgiveness amount reduced based on the reduction in full-time equivalent employees.
- *This was not addressed in the recent IFR. We expect the SBA guidance will provide additional details.*

PPP Flexibility Act (PPPFA)

Economic Injury Disaster Loans (EIDL):

- If you received an EIDL from January 31, 2020 through April 3, 2020 you are eligible to apply for a PPP loan.
- If the EIDL was not used for payroll costs, it does not affect eligibility for PPP loan.
- If the EIDL was used for payroll costs, your PPP loan must be used to refinance the EIDL.
- Proceeds from any advance up to \$10,000 on the EIDL will be deducted from the loan forgiveness amount of the PPP loan.

PPP Flexibility Act (PPPFA)

SBA reopens COVID-19 Economic Injury Disaster Loans (EIDL) and EIDL Advance:

- SBA is offering low interest federal disaster loans for working capital to small business and non-profit organizations that are suffering substantial economic injury as a result of COVID-19 in all U.S. States, Washington D.C. and territories.
- These loans may be used to pay debts, payroll, accounts payable, and other bills that can't be paid because of the disaster's impact, and that are not already covered by a Paycheck Protection Program loan.

PPP Flexibility Act (PPPFA)

EIDL Loan Details:

- Interest Rate 3.75% for small businesses and 2.75% for non-profits.
- Maximum 30 year loan with first payment deferred for one year.
- Small businesses and non-profits may request, as part of the loan application, an EIDL Advance of up to \$10,000.
- EIDL Advance: designed to provide emergency economic relief to businesses that are currently experiencing a temporary loss of revenue. This advance will not have to be repaid, and small business may receive an advance even if they are not approved for the loan.
- EIDL is a direct SBA loan and application must be made electronically through the SBA website. (www.sba.gov)

PPP Flexibility Act (PPPFA)

Summary:

- Timing of the next SBA guidance and revision of the PPP Loan Forgiveness Application (3508) is unknown.
- There is bi-partisan support for an abbreviated PPP Loan Forgiveness Application for loans under \$250,000.
- First Bank is developing a process for the Loan Forgiveness phase.

Resources



- US Department of Treasury
<https://home.treasury.gov/>



- Small Business Association
<https://www.sba.gov/>



- First Bank's COVID-19 web page
<https://www.firstbanks.com/>



Appendix

PPP Flexibility Act (PPPFA)



Payroll Costs- 60% of Loan Proceeds:

Payroll costs consist of compensation to employees (whose principal place of residence is the United States):

- Salary, Wages, Commissions or similar compensation
- Cash tips or the equivalent (based on employer records of past tips, or in the absence of such records, a reasonable good faith employer estimate of such tips)
- Payment for vacation, parental, family, medical, or sick leave
- Allowance for dismissal or separation
- Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement
- Independent Contractors or Sole Proprietors: Wages, Commissions, Income or Net Earnings from self-employment, or similar compensation

PPP Flexibility Act (PPPFA)



Non-Payroll Expenses: 40% of Loan Proceeds

- Mortgage Interest paid or incurred including interest on debt incurred before 2/15/20 and secured by real or personal property.
- Rent or lease expense paid or incurred on obligations incurred before 2/15/20.
- Utility costs paid or incurred including: water, gas, electric, telephone, internet, and transportation for which service began before 2/15/20.

**Mid-Year Update
June 2020**

David Presson, CFA
Director of Investments
First Bank Wealth Management



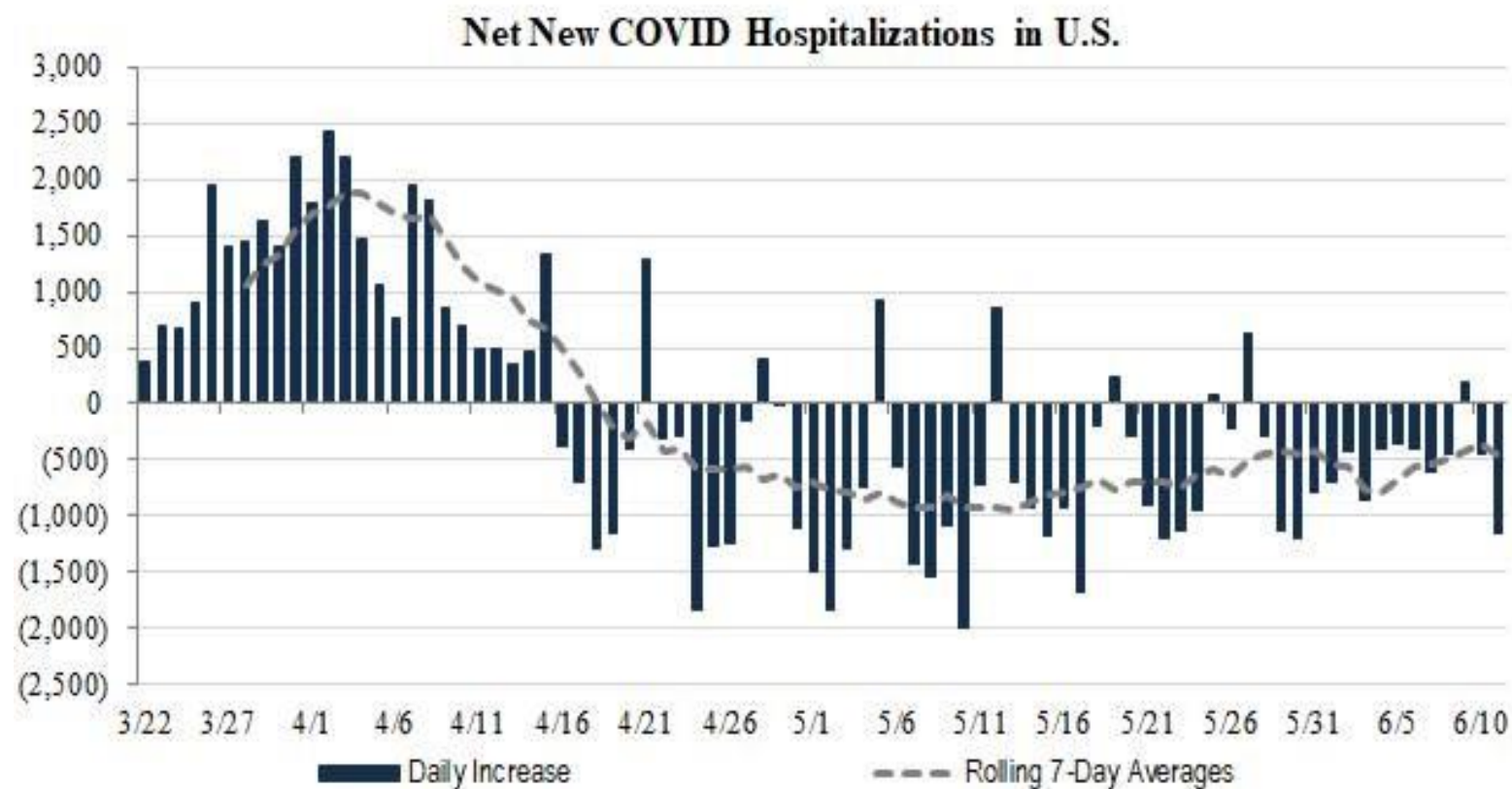
Review of 50 Year Major Virus Outbreaks

Pandemic	Stock Market Decline	Global Deaths	U.S. Deaths
1918 Spanish Flu	-33%	50 Million	675,000
1968 Hong Kong Flu	-36%	1 Million	100,000
*Covid-19	-34%	434,669	115,998

- Number of Deaths as of 6/15/20
- Stock Market Decline as of 3/23/20 Low



Hospital Data Probably Most Important Trend to Watch Improving from Early April Peaks



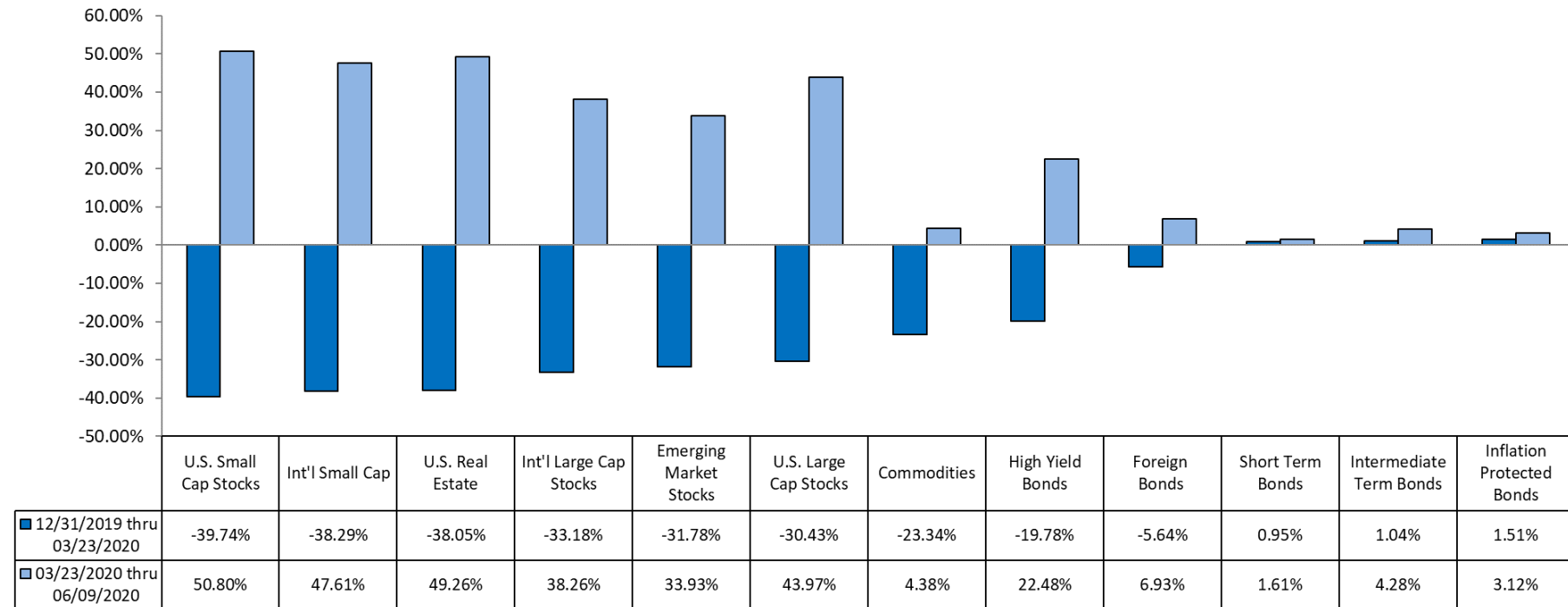
Data from ISI

YTD S&P 500 Return

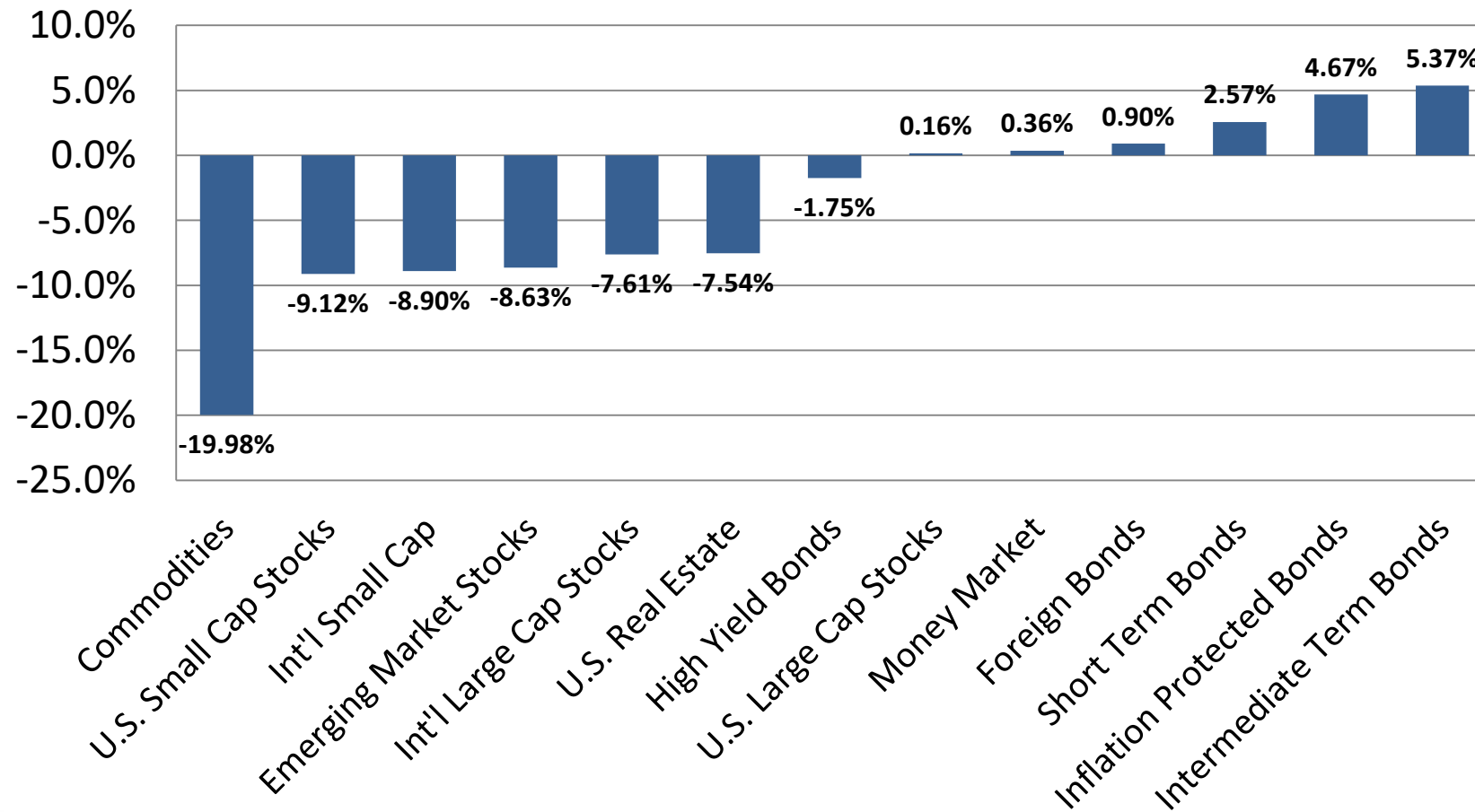


Before & After March Lows

Best 50 Day Period Ever for S&P 500



Performance Trends YTD – Major Asset Classes



As of 6/9/2020



Rationale Behind the Rebound

- **Stock Market is Forward Looking and is Anticipating an Economic Recovery in Late 2020 and into 2021**
- **Optimism on Medical Advances – Treatments, Testing & Vaccine**
 - **80 Companies Worldwide are Working on a Vaccine**
 - **Millions of Scientists Around the World are Studying COVID-19 and Working on Treatments and to Better Understand the Disease**
 - **Greater Number of Tests & Quicker Tests – Along with Contact Tracing**
- **Massive Government Stimulus and Federal Reserve Liquidity & Backing – More Appears on the Way – Acted Much Quicker than in 2008**
- **S&P 500 Index is Weighted by Size of the Company - 20% of Index is in Amazon, Microsoft, Google, Facebook & Apple – Other Companies also Doing Well (Netflix, Zoom, Video Games, Drug Companies, Costco, Target, Wal-Mart)**
- **Lockdown Restrictions Have Eased – Gradual Re-Opening**



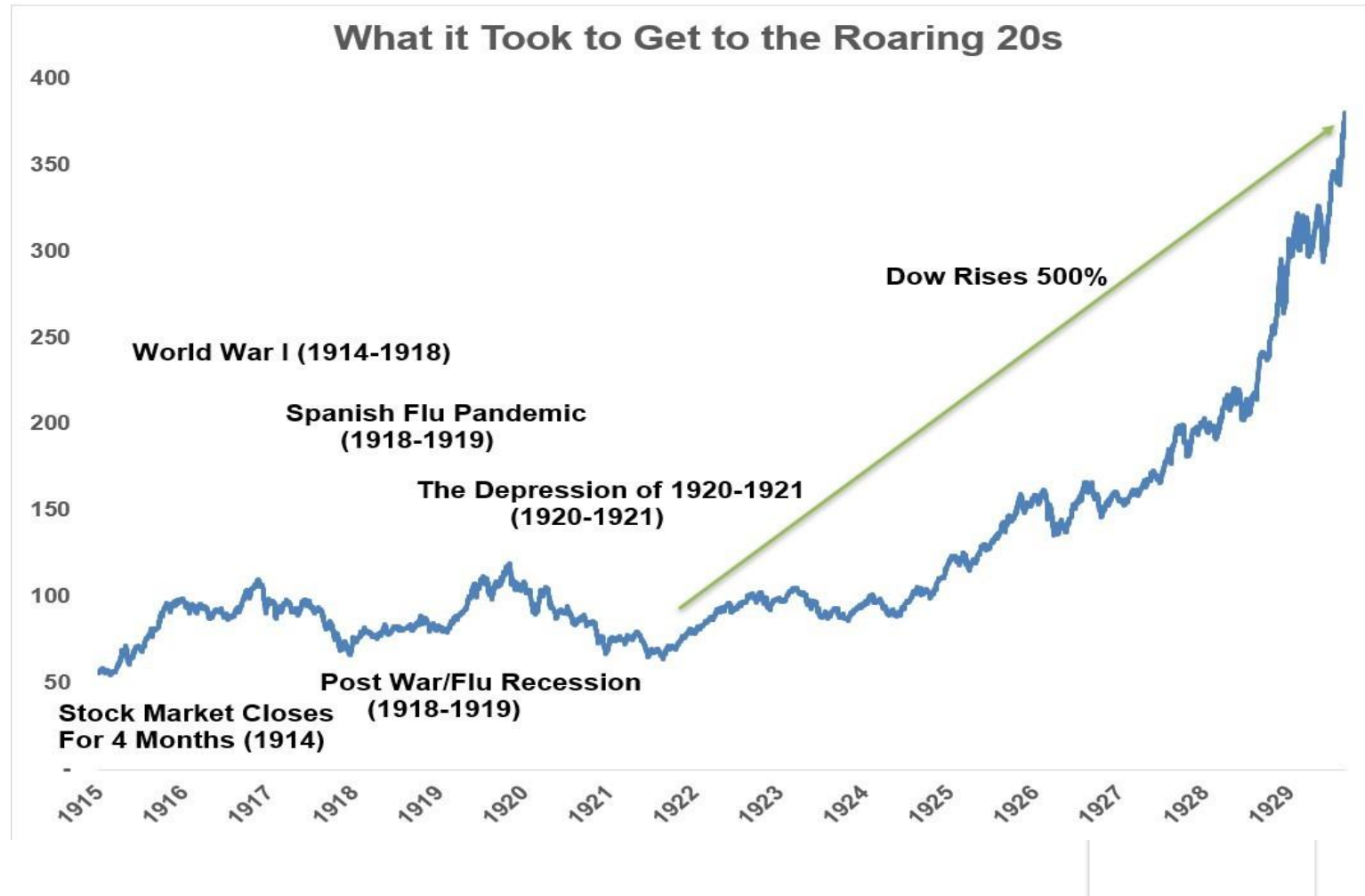
What Happens after Major Drops

Drawdown	Peak	Trough	Forward Returns		
			1 Year	3 Years	5 Years
-86.2%	9/7/1927	6/1/1932	121.4%	117.7%	280.7%
-55.2%	10/9/2007	3/9/2009	72.3%	115.0%	208.8%
-51.2%	3/6/1937	3/31/1938	34.8%	36.3%	83.6%
-47.4%	3/24/2000	10/9/2002	36.1%	62.4%	120.6%
-44.8%	1/11/1973	10/3/1974	44.4%	76.4%	122.9%
-40.6%	9/7/1932	2/27/1933	95.5%	165.6%	132.5%
-32.6%	11/29/1968	5/26/1970	48.9%	71.3%	56.1%
-26.4%	11/9/1940	4/28/1942	63.9%	132.0%	147.2%
-32.8%	8/25/1987	12/4/1987	26.0%	61.1%	128.7%
-30.4%	10/25/1939	6/10/1940	16.6%	65.4%	124.9%
-31.8%	2/6/1934	3/14/1935	76.7%	45.9%	85.4%
-27.4%	7/18/1933	10/21/1933	1.9%	98.8%	71.6%
-33.8%	2/19/2020	3/23/2020	44.0%*	???	???
Averages:			53.2%	87.3%	130.2%

*3/23/2020 through 06/09/2020

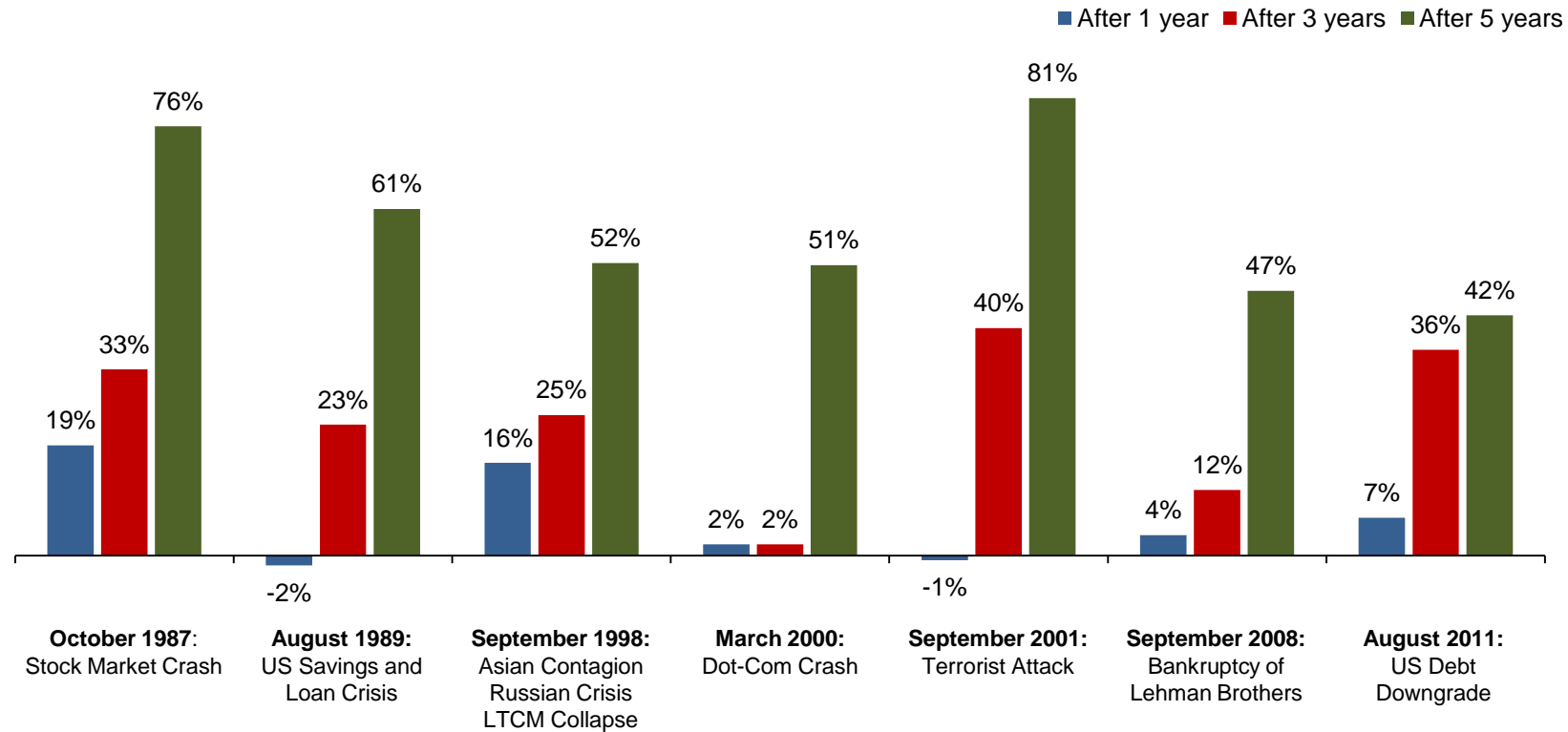


Being Patient Offers Rewards



Balanced Approach Helps with Recovery

Performance of a Balanced Strategy: 60% Stocks, 40% Bonds
Cumulative Total Return



In US dollars.

Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index, 12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% FTSE World Government Bond Index 1-5 Years (hedged), 10% FTSE World Government Bond Index 1-3 Years (hedged), 10% ICE BofAML 1-Year US Treasury Note Index. Assumes monthly rebalancing. For illustrative purposes only. S&P and Dow Jones data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. ICE BofAML index data © 2019 ICE Data Indices, LLC. FTSE fixed income indices © 2019 FTSE Fixed Income LLC. All rights reserved. Bloomberg Barclays data provided by Bloomberg. Dimensional indices use CRSP and Compustat data.

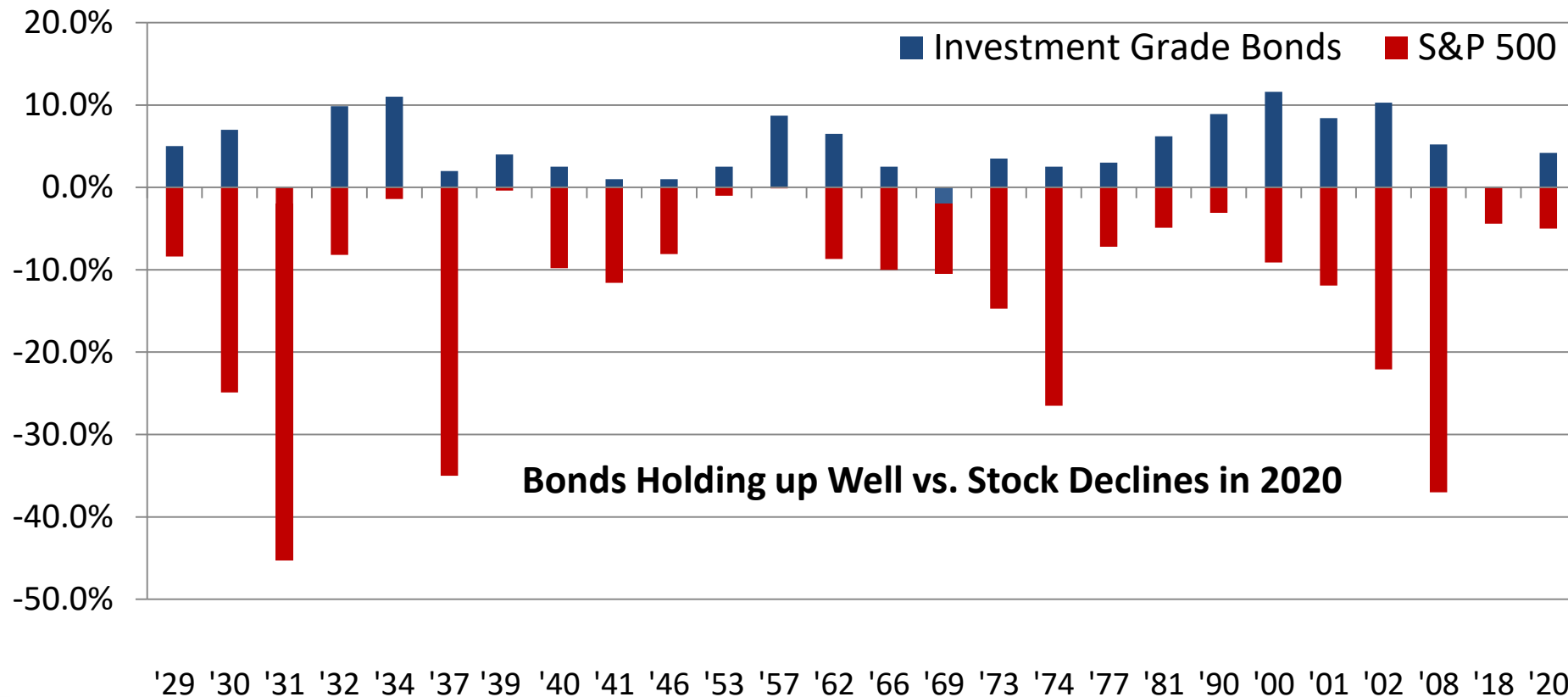
Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance. See “Balanced Strategy Disclosure and Index Descriptions” pages in the Appendix for additional information.



Bonds Help Hedge Stock Market Risk

Bond Returns Typically Positive in Years Stocks Decline

The total return of stocks & bonds haven't been negative in same year for past 40 years.

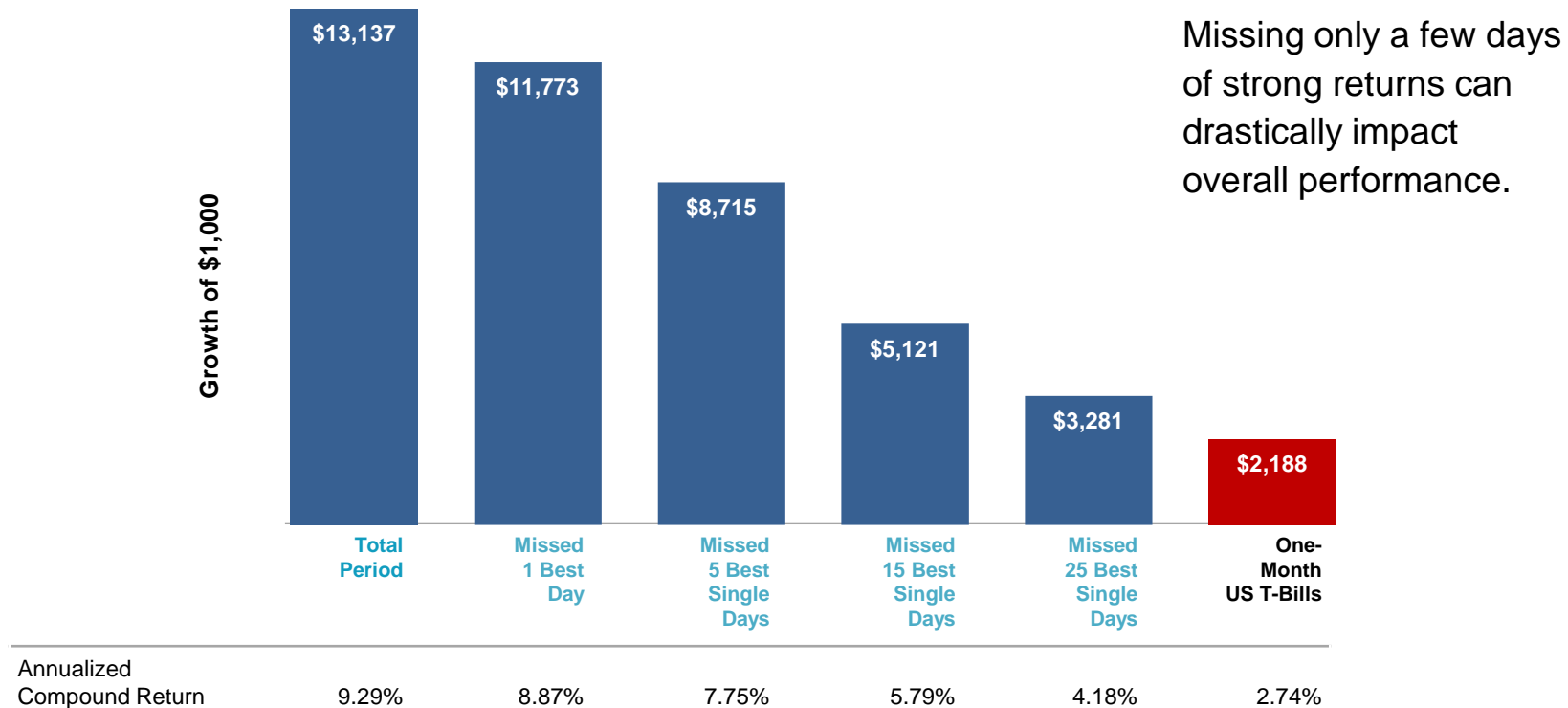


Past performance is no guarantee of future results. Bond returns represented by the performance of the Barclays Aggregate Bond Index from January 1976 through July 2012 and by a composite of the IA SBBI Intermediate-Term Government Bond Index (67%) and the IA SBBI Long-Term Corporate Bond Index (33%) from January 1926 through December 1975. Stock returns represented by the performance of the S&P500 Index.
Source: Morningstar, Bloomberg



Reacting Can Hurt Performance

Performance of the S&P 500 Index, 1990–2019



In US dollars. For illustrative purposes. The missed best day(s) examples assume that the hypothetical portfolio fully divested its holdings at the end of the day before the missed best day(s), held cash for the missed best day(s), and reinvested the entire portfolio in the S&P 500 at the end of the missed best day(s). Annualized returns for the missed best day(s) were calculated by substituting actual returns for the missed best day(s) with zero.
S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. "One-Month US T-Bills" is the IA SBBI US 30 Day TBill TR USD, provided by Ibbotson Associates via Morningstar Direct. Data is calculated off rounded daily index values. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.



Biggest Risks Going Forward

- **Second Wave**
- **Delay in a Vaccine**
- **China Tensions**
- **Elections**



Thank You