PIPER | SANDLER

January 7, 2021

$900B Coronavirus Relief Bill:

Six Takeaways for Front Line Financials

On December 21, 2020, Congress passed the $900 billion Coronavirus Response and Relief Supplemental Appropriations ACT, 2021 (CRRSA). Elements of CRRSA became Divisions M and N of the broader $2.3 trillion Consolidated Appropriations ACT, 2021 (the "ACT") that was overwhelming ratified by the House (359-53) and Senate (92-6) on December 21[1] and signed into law by President Trump on December 27. (For ease of reference, since CRRSA has now been rolled into the Consolidated Appropriations ACT, 2021, citations of those legislative elements will be referred to herein as the "ACT"). At over 5,000 pages, the ACT passed by Congress was over 4x the length of War and Peace and not nearly as readable!

We all admire the courage and dedication of our front line health care providers who have worked tirelessly to serve the COVID-19 medical needs of the U.S. population. Hopefully, with the roll out of multiple COVID-19 vaccines and use of recommended CDC protocols, we will begin to make progress reducing the spread of the virus and we can more fully reopen the economy. While that recovery is unfolding, U.S. financial institutions including regional and community banks, thrifts, credit unions, minority depository institutions, and community development financial institutions (CDFIs) have been on the front lines of lending to, providing additional help to, receiving deposits and collecting payments from small businesses, households, and individuals. According to the American Bankers Association, more than 5,400 lenders participated in the first round of the Paycheck Protection Program (PPP) including more than 3,500 banks with less than $1 billion in assets. The U.S. Treasury and SBA have reported that since the inception of the PPP, more than 5 million PPP loans have been made, totaling $525 billion, supporting 51 million jobs.[2]

Aside from the critical delivery of vaccines and maintaining recommended protocols, the speed and strength of the recovery from the coronavirus pandemic will be strongly influenced by the success of these front line financial institutions in working with small businesses and households particularly in low-and moderate-income (LMI) areas. As such, this report will highlight six areas of the ACT that will allow these financial institutions to facilitate the successful implementation of these programs and expedite our recovery from the pandemic.

As shown below in Chart A, the ACT provides approximately $900 billion in funding for coronavirus relief and economic support in three broad categories: $394 billion for businesses, $311 billion for households and workers, and $180 billion for COVID response.

---

[1] At 5,593 pages in length, the Consolidated Appropriations ACT, 2021 (version referred to as the Rules Committee Print 116-68, Text of the House Amendment to the Senate Amendment to H.R. 133) was among the longest bills ever passed by Congress. The coronavirus relief sections are contained in DIVISION M (98 pages) and DIVISION N (543 pages). Many in Congress complained that the haste with which this bill was assembled left little time for careful review and study of the various components. After the bill was passed by Congress on December 21, it was reformatted and condensed by 3,469 pages into a 2,124 page bill that was ultimately signed by President Trump on December 27th.

[2] ABA Statement on Bipartisan COVID-19 Relief Agreement, December 21, 2020. Rob Nichols, ABA President and CEO. Pg. 1.

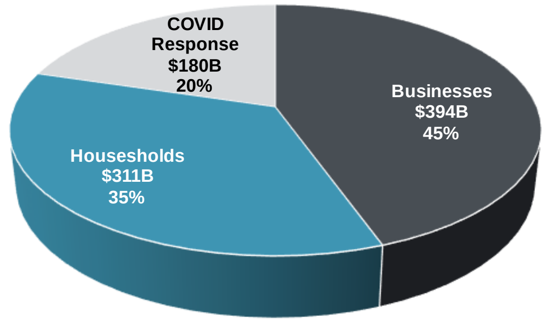
Financial Services Group

Thomas W. Killian
Managing Director | Investment Banking
+1 212 466-7709
tom.killian@psc.com

Robert Albertson
Managing Director and Chief Strategist
+1 212 466-7946
robert.albertson@psc.com

Weison Ding
Director
+1 212 466-8005
weison.ding@psc.com

Chart A – The ACT Funding Allocated in Three Broad Categories



Source: Consolidated Appropriations Act, 2021

Within these three broad categories, the most funding was allocated to small businesses, stimulus payments (EIBs) and unemployment benefits as highlighted below in Chart B.

Chart B – Allocation of Funding by Need/Recipients

Need /Recipients	Location In Bill Text	Amount	Description
Small Businesses	Div. N, Title III, Beginning Section 301	325	$284B for PPP loans, $20B for EIDL, and $15B Venue Operators
Transportation	Div. N, Title IV, Begin. Sec. 204	45	Airline Worker & Contractor Support Salaries; Airports & Related Business
Small banks	Div. N, Title V, Sub. B, Sec. 522-523	12	MDIs and CDFIs Serving LMI Businesses and Families
Farms	Div. N, Title VII, Sub. B, Section 751-766	12	Coronavirus Food Assistance Program, Various Ag/Dairy/Livestock Programs
		394	Total Businesses
Stimulus Payments	Div. N, Subtitle B, Sec. 272-273	166	$600 (EIP) up to $75K , $1,200 per couple, $600 per qualifying child
Unemployment Benefits	Div. N, Title II, Sub. A, Begin. Sec. 200	120	$300 per week through March 14, 2021 and other detailed programs
Rental Assistance	Div. N, Title V, Sub. A, Sec. 501	25	Provided thru states to eligible renter households, 1/31/21 eviction ext.
		311	Total Households
Education/Schools	Division M, Title III, Sec. 311	82	Pubic & Private K-12 schools, Governor's and Higher Ed Emergency Funds
Vaccines	Division M, Title III	40	CDC, BARDA, Strategic National Stockpile, No cost distribution of vaccine
Testing and Tracing	Division M, Title III	28	Contact Tracing, Hospital Reimbursement, NIH research
Nutrition	Division M, Title III	13	Supplemental Nutrition Assistance Program (SNAP)
Child care	Division M, Title III	10	Grants for Child Care Providers and Head Start
Broadband Connectivity	Div. N, Title IX, Section 901-903	7	Broadband for Telehealth, Emergency Services etc, in Minority Communities
		180	Total COVID Response

$ Billions

Source: Consolidated Appropriations Act, 2021

While the ACT provides support for schools, vaccines and testing, nutrition and child care, and broadband, we have highlighted six areas of the ACT we think are most important to front line financial institutions.

Chart C – Key Provisions Affecting Front Line Financial Institutions

- **Small Business Support Through SBA Lending/Grants ($325B)**
- **Stimulus Payments (EIPs) ($166B)**
- **Extension of Unemployment Benefits ($120B)**
- **Rental Assistance Payments ($25B)**
- **Community Development Investment ($12B) for MDIs and CDFIs**
- **One Year Extensions of CECL and TDRs Reporting**

Building upon the success of the March 2020 CARES Act's PPP program, Congress allocated an additional $284 billion for round 1 and round 2 PPP borrowers along with $20 billion for the Economic Injury Disaster Loans (EIDL) and $15 billion for grants to live entertainment venues. The ACT allocates approximately $166 billion for EIPs of up to $600 per eligible taxpayer ($1,200 per couple filing a joint return) that begin to phase out at $75K for single and $150K for married taxpayers filing jointly. The ACT allocates $120 billion to fund federal unemployment benefits of $600 per week until March 14, along with $25 billion in rental assistance payments and a moratorium on evictions until January 31, 2021. The ACT allocates $9 billion in capital through a community development preferred stock program and $3 billion in financial support for minority depository institutions (MDIs) and community development financial institutions (CDFIs) to lend in LMI areas. This is a unique program and likely to be a very important source of capital for such institutions. Banks and credit unions were also granted a temporary delay in adopting Current Expected Credit Loss (CECL) until the earlier of January 1, 2022 or the first day of the fiscal year that begins after the national emergency termination date. For loan modifications, the ACT allows financial institutions to suspend until the earlier of (i) 60 days after the national emergency termination date or (ii) January 1, 2022, the adoption of any requirements recognizing potential COVID-related losses or modifications as a TDR. By developing a better understanding of these important provisions, front line financial institutions may be able to facilitate the successful implementation of these programs and speed our recovery from the pandemic.

Small Business Support Through SBA Lending/Grants ($325B)

Division N, Title III, Sections 301 to 346:

Small business support was a top priority in the ACT as evidenced by the fact that the SBA was allocated $325 billion for loans and grants. The Paycheck Protection Program garnered the most support with $284.4 billion for both first-time PPP borrowers (PPP1) and second round borrowers (PPP2) for smaller and harder hit businesses. (This $284.4 addition increases the overall level of authorization for PPP loans to $805.5 billion.) The EIDL advance grants program was next with $20 billion in allocations for grants, followed by the Shuttered Venues Operators program with $15 billion for grants to closed live entertainment venues.

In addition to these programs, $3.5 billion was allocated for debt relief on non-PPP SBA programs and $1.9 billion was set aside for the implementation of other SBA loan programs. More specifically, the ACT resumes payment of principal and interest on existing SBA 7(a), 504 and microloans as established under the CARES Act. All borrowers with qualifying SBA loans prior to the CARES Act will receive an additional three months of payments starting February 2021 (capped at $9,000 per borrower per month) with potential for an additional five months of payments if borrowers are considered underserved in hard-hit areas. For new SBA loans originated between February 1 and September 30, 2021, the SBA will pay principal and interest for the first six months subject to funds availability.

PPP:

The ACT made a number of changes to the existing PPP program, introduced a new second draw program, broadened eligibility, added additional funding and extended the PPP program deadline from December 31, 2020 to March 31, 2021. In addition to added funding and the extension of the program deadline, the ACT also makes a number of modifications that make the PPP program more attractive to borrowers and lenders. The SBA has 10 days after the signing of the ACT on December 27 to issue formal regulations implementing the ACT, but we have summarized some of the key elements of the revised PPP below:

- PPP1 loans (new and existing):
    - *Additional eligible/forgivable expenses*: Expenses for business software, cloud computing services, group life, disability, vision, and dental insurance benefits as well as payroll processing; costs related to property damage, vandalism, or looting due to public disturbances in 2020; payments to suppliers that are essential to the business's operations; and operating or capital expense to comply with public health directives (including the installation of ventilation systems or physical barriers and the purchase of personal protective equipment). Existing and new borrowers whose PPP loans have not yet been forgiven as of December 27 are eligible to include the above expenses in the request for loan forgiveness.

    - *Expanded lender hold harmless provisions*: Lenders may rely on certifications and documents provided by borrowers for both PPP1 and PPP2 loans. Enforcement actions cannot be taken against lenders who rely on such certifications and documentation in good faith and comply with all other relevant federal, state, local and other statutory and regulatory requirements applicable to the lender.

    - *Expanded eligibility for borrowers*: The ACT expands eligibility for PPP loans to (i) housing cooperatives that have fewer than 300 employees; (ii) newspaper publishers, radio and TV broadcasters, or public broadcaster with less than 500 employees per physical location, (iii) 501(c)(6) organizations such as trade associations and chambers of commerce (excluding destination marketing and lobbying organizations); and (iv) debtors that have filed under Chapter 11 of the bankruptcy code subject to authorization from the bankruptcy court after notice and a hearing. Note that publicly traded companies are explicitly ineligible for a PPP loan although this may not restrict companies that are owned or controlled by publicly traded companies from being eligible.

- PPP2 second draw loans: The ACT funds PPP2 loans for small businesses with 300 or fewer employees that have sustained at least a 25% revenue loss in the first, second, or third quarter of 2020 relative to the same period in 2019. Borrowers must have used the full proceeds from their PPP1 loan and may only receive one PPP2 loan. **Borrowers can receive up to 2.5x average monthly payroll costs in the year prior to origination or the calendar year 2019. Hotels and restaurants may receive loans of up to 3.5x average monthly payroll costs.** Seasonal employers can calculate their maximum loan amount based on any 12-week period between February 15, 2019 and February 15, 2020. Businesses not in operation for the year prior to February 15, 2020 may calculate their maximum loan amount based on average monthly payroll for the months in operation. Lender processing fees for PPP2 loans range from 3% for loans of $350,00 or more, 5% for loans between $50,000 and $350,000, and the lesser of $2,500 and 50% of the loan amount for loans of less than $50,000. Similar to PPP1 loans, at least 60% of expenses must be payroll expenses in order to qualify for full forgiveness.

- Small lenders allocations: $15 billion allocated for initial (PPP1) and second draw (PPP2) loans made by CDFIs and MDIs; and $15 billion allocated for PPP1 and PPP2 loans by banking organizations with less than $10 billion in assets.

- Small borrowers allocations: $35 billion allocated for first-time borrowers; smaller borrowers with 10 or fewer employees or loans of $250,000 or less in LMI areas are allocated $15 billion for PPP1 and $25 billion for PPP2 loans. If these set asides for small lenders or borrowers are not used for after 25 days after the program launch, the SBA may reallocate the set-asides.

- Clarification of tax treatment on loan forgiveness: No expenses, deductions, or basis increases and no tax attribute will be reduced because the forgiveness of PPP loans (or the receipt of an EIDL advance grant) is excluded from gross income. Borrowers are no longer required to deduct the amount of their EIDL advance grants from their PPP loan forgiveness amount.

EIDL Advance Grants:

In addition to the funds allocated to the PPP lending program, the ACT made available $20 billion for SBA EIDL advance grants with a maximum grant amount of $10,000 each. These grants are available for eligible businesses who employ 300 of fewer people. The recipient must be a qualifying small business, private non-profit, sole proprietorship, or independent contractor in business operation by January 31, 2020. Applicants must be located in LMI areas and have suffered at least a 30% economic loss during an 8-week period between March 2, 2020 and December 17, 2021. The SBA had fully disbursed the $20 billion in EIDL advance funds allocated in the CARES ACT through 6 million advances as of July 15, 2020 with an average advance size of approximately $3,300.

Shuttered Venue Operator Grants:

The ACT also included $15 billion for SBA grants for shuttered live venue operators. This is a new program and substantial detail was provided in the ACT covering eligible venue operators, grant amount, eligible expenses, and priority for grant allocation as described below:

- Eligible venue operators: Live venue operators or promoters, theatrical producers, live performing arts organization operators, museums operators, movie theater operators, or talent representatives (venue operators) who were in business as of February 29, 2020 and sustained a 25% revenue loss in the first, second, or third quarter of 2020 relative to the same period in 2019. The venue operator must be open or intend to reopen as of the date of receiving the grant. Entities controlled by publicly traded companies, venue operators receiving more than 10% of 2019 revenue from federal funding, or venue operators with operations: (i) in more than one country, (ii) in more than 10 states or (iii) having more than 500 employees are ineligible for SBA venue grants. Recipients of PPP loans are not eligible for venue operator grants. Not more than five affiliates of a venue operator may receive a grant.

- Grant Amount: Maximum grant amount of $10 million (combined primary and supplementary grant) based on 45% of 2019 revenue (subject to pro ration for venue operators not in operation for all of 2019). A supplemental grant equal to 50% of the initial grant for harder hit venues is available as of April 1, 2021.

- Eligible expenses: Use of proceeds for the grants include payroll costs, utilities, scheduled mortgage payments, interest on pre-existing debt, personal protective equipment, and other ordinary and necessary business expenses. The SBA will require venue operators to retain records to document compliance with grant requirements.

- Priority for hardest hit venues: (i) in the first 14 days of the program, grants will be reserved for venue operators that have 90% or greater revenue loss, (ii) from day 15 to 28, grants reserved for venue operators with 70% or greater revenue loss, and (iii) after 28 days, grants awarded to all others with 20% of the $15 billion reserved for this category.

Stimulus Payments (EIPs) ($166B)

Division N, Title II, Subtitle B, Beginning Sections 272 - 273:

The ACT provides a second round of EIPs to be made directly to approximately 160 million eligible Americans. These payments are required to be made by January 15. Any funds not received by that date will have to be claimed as a recovery rebate credit when the taxpayer files his or her return. The maximum benefit for an individual taxpayer with adjusted gross income below $75,000 (based on 2019 tax returns) is $600. For married couples, the maximum benefit is $1,200 plus $600 for dependents under age 17. Although there is no cap on household size, adult dependents are not eligible. Those with incomes greater than $75,000 will receive a pro-rated amount up to $87,000 if they have no dependents. For couples, the full benefit applies to those earning up to $150,000 and will be curtailed as joint income approaches $174,000. For more details on the timing and amount of EIPs please see the link below on the IRS website: https://www.irs.gov/coronavirus/second-eip-faqs

Extension of Unemployment Benefits ($120B)

Division N, Title II, Subtitle A, Sections 201-266:

Unemployment benefits were extended through a myriad of programs largely administered by the states. It is reasonable to expect that the new administration will look carefully at some of these March deadlines and extend them later into 2021. Highlights of these key programs are provided below:

- Pandemic Employment Assistance (PUA) benefits were extended to March 14, 2021 (or through April 5, 2021 if the individual has not reached the maximum number of weeks). Effective January 31, 2021, new applicants for PUA are required to submit documentation to substantiate employment status within 21 days. Those already receiving benefits as of January1, 31, 2021 have to submit documentation within 90 days.
- Families First Coronavirus Response Act Benefits were extended through March 14, 2021 to cover 50% of the costs to employees of state and local governments and non-profit organizations.
- Federal Pandemic Unemployment Compensation (FPUC) supplement to all state and federal unemployment benefits at $300 per week starting after December 26 and ending March 14, 2021.
- CARES Act provision changed to reimburse states for the cost of waiving the "waiting week" for regular unemployment compensation with reimbursement rate after December 26, 2021 at 50%.
- Pandemic Emergency Unemployment Compensation (PEUC) benefits extended to March 14, 2021 and increased to a maximum number of weeks of benefits from 13 to 24 weeks (benefits allowed to continue until April 5 until reaching the maximum number of weeks.
- Effective 30 days from enactment, states are required to have methods to address situations where claimants refuse to return to work or accept an offer of suitable work.

Rental Assistance Payments ($25B)

***Division N, Title V, Sub Title A, Section 501*:**

Provides for $25 billion through the U.S. Treasury to provide state and local government entities with funds to provide rental assistance payments. Eligible renter households (i) have a household income not more than 80% of the area median income (AMI); (ii) have one or more household members who can demonstrate risk of experiencing homelessness or housing instability; and (iii) have one or more household members who qualify for unemployment benefits or experienced financial hardship due, directly or indirectly to the pandemic. Assistance would be prioritized for renter households whose incomes do not exceed 50% of AMI as well as renter households who are currently unemployed and have been unemployed for 90 days or more.

In addition to emergency rental assistance, the CDC moratorium on evictions is extended until January 31, 2021, pursuant to Division N, Title V, Sub Title A, Section 502.

Community Development Investment for CDFIs, MDIs, and Credit Unions ($12B)

Division N, Title V, Sub Title B, Sections 520 to 525:

Congress felt a strong need to provide assistance to low-income and minority communities and the community development financial institutions (CDFIs) and minority depository institutions (MDIs) that serve them that have been disproportionately impacted by the coronavirus pandemic. To address these concerns, the ACT allocates $9 billion of funding for investment of preferred stock by the U.S. Treasury directly into qualifying CDFIs and MDIs to enable them to provide financial products and services to low- and moderate-income and minority communities (LMI). This Emergency Capital Investment Program (ECIP) will be similar to the Community Development Capital Initiative (CDCI) that was made available by the U.S. Treasury to qualifying CDFIs in 2009. A high-level summary of the key terms is provided below:

Chart D – Preliminary Summary of ECIP Program Terms

Eligible Institutions:	CDFIs, MDIs, Credit Unions; provided, however that no such institution can be designated as being in "troubled condition" or subject to a "formal enforcement action" from its primary regulator. $4 billion will be set aside for entities < $2 billion in total assets with $2 billion of that amount reserved for institutions < $500 million in total assets
Investment Amount:	Up to 22.5% of Risk Weighted Assets < $500 million in assets; 15% of RWA if > $500 million and < $2 billion in assets; 7.5% of RWA > $ 2 billion in assets
Security: years	Tier 1 Qualifying, Senior Cumulative Preferred Stock with an expected maturity of [10]
Dividend Rate:	2% annual cap. Cap decreases to 1.25% if target lending increases to 200-400% of capital investment or to .5% if target lending increases above 400% of capital investment. 24-month initial dividend deferral.
Use of Proceeds:	Support investments in low and moderate income and minority communities disproportionately affected by COVID-19 pandemic; Must demonstrate past lending support in the past 2 fiscal years to targeted borrower groups (at least 30% of lending was to LMI borrowers) and develop a plan to maintain or expand lending to low- and moderate-income communities
Resale Limitations:	Issuer granted right of first refusal. No more than 25% to be sold to any single purchaser; resale of CDFI non-profit for de minimis or no price (with issuer consent)
Availability:	Beginning 30 days after signing of the ACT and terminating 6 months after the date of termination of the coronavirus national emergency

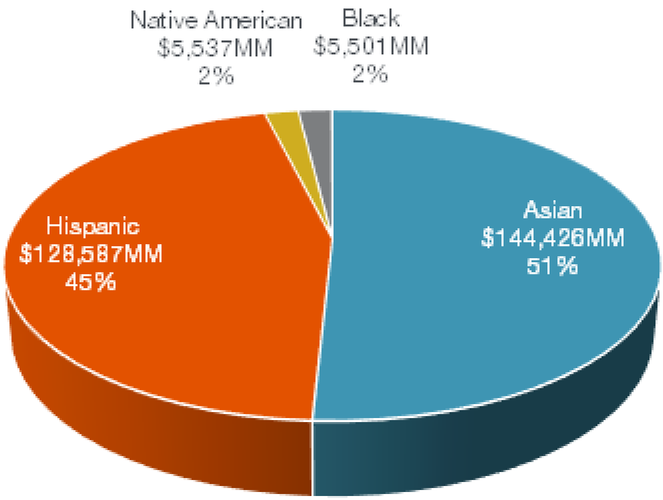
Source: Consolidated Appropriations Act, 2021; Division N, Title V, Sub Title B, Section 522

LMI financial institutions means any financial institution that is either a CDFI or MDI that is (i) an insured depository institution not controlled by a BHC or SLHC, (ii) a bank holding company, (iii) a savings and loan holdings company, of (iv) a federally insured credit union. A CDFI is a community development financial institution, as defined in Section 308 of FIRREA. A MDI is an entity that is a minority depository institution as defined by FIRREA, considered to be a minority depository institution by the appropriate Federal banking agency or the NCUA, or listed in the FDIC's Minority Depository Institutions List published for the third quarter of 2020.

There is a narrow window for these CDFIs, MDIs, and Credit Unions to apply for ECIP capital between the start date (30 days after the ACT was signed) and terminating six months after the coronavirus emergency is terminated. As shown below in Chart E, there are currently 143 MDIs and 1,163 CDFIs in the U.S. Approximately 96% of the assets in MDI institutions have an Asian American or Hispanic focus. California and Texas are the states with the greatest concentration of MDIs with 35 and 21, respectively. There are 1,163 CDFIs divided among loan funds, credit unions, banks or thrifts, depository institution holding companies, or venture capital fund. Note that there are 147 bank or thrift CDFIs and 143 MDIs so there is a high level of overlap between these types of institutions that serve minority communities. Given the attractiveness of the terms for the ECIP preferred stock, there is likely to be strong interest in applying for consideration which should be completed in the next 30 days. Interested MDIs, CDFIs, and credit unions should quickly evaluate whether they should submit an application.

Chart E – Summary of Eligible MDIs and CDFIs

Minority Depository Institutions



MDIs by Focus

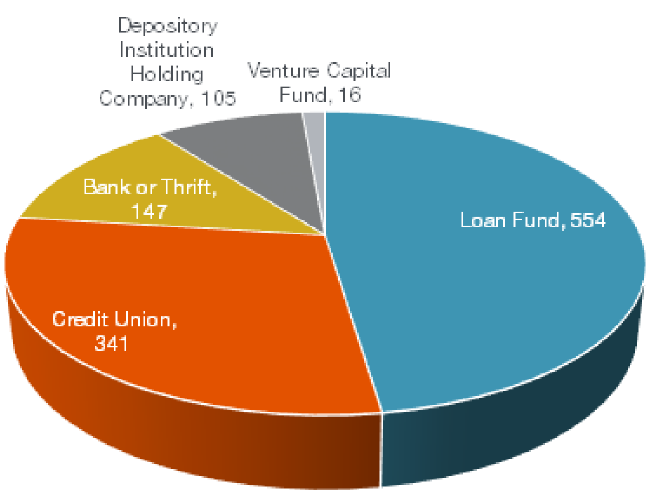
Type	#	Total Assets ($000s)
Asian	72	144,426,363
Hispanic	33	128,586,973
Native American	17	5,537,275
Black	20	5,501,188
Multi-Racial	1	128,336
Total	**143**	**284,180,135**

Top Ten MDI States

	State	#of MDIs		State	#of MDIs
1	California	35	**6**	Georgia	9
2	Texas	23	**7**	Illinois	5
3	New York	11	**8**	Pennsylvania	3
4	Oklahoma	11	**9**	Hawaii	3
5	Florida	10	**10**	Puerto Rico	3

Source: FDIC List of MDIs as of 2020Q3

Community Development Financial Institutions



CDFIs by Type

Financial Institution Type	#
Loan Fund	554
Credit Union	341
Bank or Thrift	147
Depository Institution Holding Company	105
Venture Capital Fund	16
Total	**1,163**

Top Ten CDFI States

	State	# of CDFIs		State	# of CDFIs
1	California	99	**6**	Florida	39
2	Mississippi	96	**7**	Michigan	38
3	New York	82	**8**	Minnesota	33
4	Louisiana	66	**9**	Pennsylvania	33
5	Texas	44	**10**	Illinois	31

Source: FDIC CDFI Certified List as of December 16, 2020

In addition to the $9 billion ECIP preferred stock fund, the ACT also provides $3 billion for emergency support for CDFIs and communities responding to the COVID-19 pandemic. Of this total, $1.25 billion will be available for grants prior to September 30, 2021 to help CDFIs serve their communities responding to the COVID pandemic. The remaining $1.75 billion will be allocated to CDFIs to serve minority communities.

One-Year Extensions of CECL and TDRs Reporting

The Current Expected Credit Loss (CECL) accounting methodology was originally scheduled to be adopted by large banks and credit unions in Q1 of 2020.[3] In our January 2020 report, we described CECL in greater detail and noted our concern about the pro-cyclical nature of CECL and the need for a quantitative impact study of the impact on the adoption of CECL on the U.S. economy. With the passage of the CARES Act in March 2020, large institutions were granted three options to adopt CECL as summarized below: [4]

- *Option 1: Adopt CECL as required in Q1 of 2020 with Day 1 reserves recognized in Q1, tax effected, and amortized over three years for regulatory capital purposes. The Day 2 charge would also be recognized in Q1 through the income statement, tax effected and charged against income.*
- *Option 2: Delay adopting CECL under Section 4014 of the CARES Act until the sooner of year-end 2020 or the date when the COVID-19 national emergency period ends. The SEC has opined that banks that delay adopting CECL until later in the year will be required to restate all prior quarters to Q1, making this option less attractive.*
- *Option 3: Elect to use the CECL interim final capital rule (IFR) that allowed banks to adopt CECL in Q1 but delay for two years the regulatory capital impact. After the two-year period, the regulatory capital impact would phase in over three years.*

Under Option 2, banks that delayed the adoption of CECL would have had to restate their 2020 financial results back to Q1 The ACT will now allow those institutions to temporarily delay the adoption of CECL until the earlier of: (i) January 1, 2022 or (ii) the first day of the fiscal year for that begins after the national emergency termination date. This one-year delay avoids penalizing the financial institutions that adopted Option 2 in good faith based on the CARES Act and provides more time for banks to work with customers to address their needs without being penalized under CECL.

The ACT also provides a one-year extension on the suspension of GAAP requirements for COVID-related loan modifications from being classified as troubled debt restructurings (TDRs). This provision has been extended to the earlier of (i) 60 days after the national emergency termination date or (ii) January 1, 2022. This assistance is critical to provide banks with more flexibility to work with customers who were current at the end of 2019 but are now facing COVID-19 related stress on their ability to repay. Without this relief, a substantial volume of modified loans could have been reclassified as TDRs after year-end 2020 potentially triggering the revaluation of loan collateral during a period of severe economic uncertainty and weakness.

Given the evolving nature of the guidance on modified loans since the passage of the CARES Act, we have provided a summary below in Chart F of the Federal Reserve Board's guidance and highlighted the key change in extension of the date of the eligibility window to January 1, 2022 for loan modifications without regulatory classification as a TDR.

[3] For more information on CECL, please see the Piper Sandler report: CECL - Ready or Not Here it Comes dated January 28, 2020. http://www.pipersandler.com/private/pdf/CECL_ready_or_not.pdf

[4] For more information on the three options for 2020 CECL adopters, please see the Piper Sandler report: CECL Summary of Options: Adopt Now, Delay Adoption, and/or Elect IFR. dated April 27, 2020. http://www.pipersandler.com/pdf/CECL_Summary_Options_042720.pdf

Chart F – Summary of Guidance for Modified Loans

Guidance	(CRRSA) The ACT	CARES Act	Interagency Statement (IAS)	Modified but not CARES Act or IAS	
Loan Category	**Section 4013 Loans**	**Section 4013 Loans**	**Modified COVID-19 Loans with NO 4013 Election**	**Did Not Result in a TDR**	**Resulted in a TDR**
Criteria	COVID related modification; Loan was not more than 30days past due as of December 31, 2019.	COVID related modification; Loan was not more than 30days past due as of December 31, 2019.	COVID related modification; Loan is less than 30days past due at time of modification.	Borrower not experiencing financial difficulty; or NO concession has been made.	Not covered by 4013 or IAS; Borrower is experiencing financial difficulty; and A concession has been made.
Eligibility Window	**Executed between March 1, 2020 and January 1, 2022; No limit to length of modifications.**	Executed between March 1, 2020 and December 31, 2020; No limit to length of modifications.	Short term relief (e.g. 6 months or less).	N/A	N/A
TDR designation	By law, may elect to not apply TDR accounting.	By law, may elect to not apply TDR accounting.	May presume borrower is not experiencing financial difficulty, and therefore not a TDR.	Not TDR.	Results in a TDR.
Past-due reporting	Past-due status is governed by the contractual terms of a loan, or if modified, the modified terms of the loan. Judgment may be needed to determine whether the terms of the loan have been modified, which may involve evaluating and understanding the terms of the accommodation offered and what was disclosed to the borrower. This may result in the past-due status of a borrower being "frozen" during a deferral period.				
Nonaccrual	A loan should be placed on nonaccrual if and when full payment of principal and interest is not expected. If an institution has granted accommodations that result in the freezing or modification of past-due status, existing nonaccrual policies that mechanically rely on past-due status may need to be evaluated to determine if they are sufficient in the current circumstances to timely identify loans for nonaccrual.				
Allowance for loan losses	Maintenance of an adequate allowance is required for all loans, regardless of TOR status or CECL adoption. The allowance should capture the impact of the modification and borrower's current conditions. New segmentation may be required, and processes relying on past due status may need to be reevaluated.				TOR impairment applies; must use a discounted cash flow or collateral fair value
Risk Rating	The risk rating should reflect the borrower's current ability to repay, and take into consideration all known facts and circumstances. Examiners will not automatically adversely risk rated loans that are affected by COVID-19 nor criticize prudent efforts to modify the terms on existing loans to affected customers.				

Source: Federal Reserve Board - COVID-19 Supervisory and Regulatory FAQ; ACT - Division N, Title V, Sub Title B, Sections 541

Summary

The courage and dedication exhibited by our front line health care providers along with the breakthroughs in the development and distribution of multiple vaccines with high efficacy was an inspiration to all of us in 2020. These efforts, combined with energy and ingenuity exhibited by our policymakers in developing the comprehensive CARES Act legislation earlier in 2020, gave us hope that the economy could be held together until later in 2021 when COVID-19 vaccines will have been more fully distributed and we would hopefully be heading towards a more open economy.

While the COVID recovery is unfolding, U.S. financial institutions including regional and community banks, thrifts, credit unions, minority depository institutions, and community development financial institutions have been on the front lines of lending to, providing additional help to, receiving deposits and collecting payments from small businesses, households, and individuals. Aside from the critical delivery of vaccines and maintaining recommended protocols, the speed and strength of the recovery from the coronavirus pandemic will be strongly influenced by the success of these front line financial institutions in working with small businesses and households particularly in LMI areas.

This report has highlighted six key areas of the ACT most important to these financial institutions to facilitate the successful implementation of these programs and speed our recovery from the pandemic including:

- **Small Business Support Through SBA Lending/Grants ($325B)**
- **Stimulus Payments (EIPs) ($166B)**
- **Extension of Unemployment Benefits ($120B)**
- **Rental Assistance Payments ($25B)**
- **Emergency Capital Investment Program ($9B) and Emergency Support Fund for CDFIs ($3B)**
- **One Year Extensions of CECL and TDRs Reporting**

We expect that there will be ongoing changes to the ACT as the new President and Congress take office and the legislation is tweaked to encompass their priorities and react to the latest developments with the coronavirus (e.g., the stimulus payments currently set for $600 per person may be increased to $2,000 per person). But one thing we know for certain is that the key role that our front line financial institutions play in working with small businesses and households particularly in low and moderate income areas will be increasingly more important to speed our economic recovery.

Thomas W. Killian is a Managing Director in the Investment Banking Group of Piper Sandler & Co.

Previously, he was a Principal of Sandler O'Neill & Partners, L.P. His 41-year career in commercial and investment banking includes seven years of commercial banking experience with NationsBank, structuring and arranging leveraged finance transactions; two years with Salomon Brothers, transacting capital markets and advisory assignments for a variety of major corporations; five years with J.P. Morgan, managing financial advisory and capital raising activities for banks and thrifts in the Western region of the United States; and 27 years with Sandler O'Neill, advising banks, thrifts, and insurance companies on a variety of capital markets, strategic advisory and M&A assignments.

Mr. Killian holds a Bachelor of Science from the University of North Carolina at Chapel Hill, where he was a John Motley Morehead Merit Scholar, and a Masters in Business Administration from Northwestern University's J.L. Kellogg Graduate School of Management.

Robert Albertson is a Managing Director and Chief Strategist in the Financial Services Group at Piper Sandler.

Previously, he was Principal and Chief Strategist of Sandler O'Neill & Partners, L.P., where he headed the investment strategy group. He provided strategy for institutional investors, consulted with clients, and worked closely with the firm's executive committee.

Albertson was founder and president of Pilot Financial, a global financial sector investment fund focused on European, Latin and U.S. banks, brokers and specialty finance companies.

Albertson was director of U.S. Bank Research (1987-99) and global coordinator for financials research (1997-99) at Goldman Sachs & Co., where he led a team of analysts covering the U.S. banking industry and established initial research coverage of banks in Europe in the 1980s and several Latin American banks in the 1990s. He also spearheaded research efforts on Internet banking and the impact of technology. For a 15-year period Albertson was rated in independent surveys as one of the securities industry's premier research analysts specializing in the financial sector.

Prior to Goldman Sachs & Co., he was managing director of U.S. Bank Equities Research at Smith Barney.

Albertson has been a frequent commentator on Bloomberg, CNN, CNBC, Fox Business and the Nightly Business Report and his comments have appeared in numerous print news media.

He is a member of the Bretton Woods Committee, the Official Monetary and Financial Institutions Forum think tank, a former president of the Bank & Financial Analysts Association, and a regular speaker before banking industry and supervisory organizations, including the Federal Reserve Bank and the Bank for International Settlements. He is on the board of the American Financial Exchange that has produced a LIBOR alternative for banks.

Albertson holds a Master of Business Administration degree from Harvard Business School and a bachelor's degree from Carnegie-Mellon University.

Weison Ding is a Director in the Financial Services Group at Piper Sandler. Previously, he was a Director of Sandler O'Neill & Partners, L.P., where he worked on the equity trading desk. Mr. Ding holds a Bachelor of Science from the George Washington University.

General Information and Disclaimers

This report has been prepared and issued by Piper Sandler & Co., a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. The information contained in this report (except information regarding Piper Sandler & Co. and its affiliates) was obtained from various sources that we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information and opinions contained in this report speak only as of the date of this report and are subject to change without notice. Contact information for Piper Sandler & Co. and the author of this report is available at www.PiperSandler.com

This report has been prepared and circulated for general information only and presents the author's views of general market and economic conditions and specific industries and/or sectors. This report is not intended to and does not provide a recommendation with respect to any security. This report does not take into account the financial position or particular needs or investment objectives of any individual or entity. The investment strategies, if any, discussed in this report may not be suitable for all investors. Investors must make their own determinations of the appropriateness of an investment strategy and an investment in any particular securities based upon the legal, tax and accounting considerations applicable to such investors and their own investment objective. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including any securities mentioned in this report. Nothing in this report constitutes or should be construed to be accounting, tax, investment or legal advice.

Neither this report, nor any portion thereof, may be reproduced or redistributed by any person for any purpose without the written consent of Piper Sandler & Co.