



Small Business Financial Options during and after COVID-19

The adverse impact of COVID-19 on the small business economy is unprecedented and the loss of business, payroll and profits have yet to be tabulated. We are certainly in uncertain times. Moreover, we are uncertain about how long COVID-19 conditions will last. Within a span of 15 to 30 days, our business and our lives have gone from being healthy and vibrant to on the verge of complete and utter ruin. In short order, the whole world economy is on the precipice of a major recession or perhaps, a global depression. Millions of jobs are being lost, product supply chains have been disrupted, government resources are being strained. Hundreds of thousands of people are being infected, thousands are dying, and hospitals are being overwhelmed as public services are being significantly curtailed. Clearly, this problem is bigger than all of us. In a rare moment in time, the whole world is under the same constraints. We are all facing the same enemy at the same time.

So, we can't account for how the world will respond to this pandemic, but we would like to have a strategy for our own life and business. What should we do in this situation? How can I protect my business? How can I recover?

First things first.

Don't let fear overtake strategic business decisions. Most business owners are scrambling to get cash to stay afloat during the pandemic. They are seeking loans from banks and the SBA. They want to know what the government is doing to send financial relief to small businesses. They want to know how to continue to pay payroll, rent and vendors. They want to know when will this situation end and we can return back to normal business.

So many questions with little or no definitive answers.

Here's a suggestion for navigating through this uncertainty:

1. Cash is King. That is, preserve the cash available by cutting and/or deferring all existing discretionary costs.
2. If your business is closed, all production and overhead costs should be cut, wherever possible. If possible, design a sustenance plan that would pay key employees a monthly stipend and continue to fund their medical insurance during this time. Unfortunately, most employees may have to be furloughed or laid-off during the height of the pandemic. Advise those employees to file for unemployment insurance and seek deferments on all monthly bills, including mortgages, rent and auto payments.
3. If your business is opened, trim costs to the level of recurring sales. Do not deficit spend during this time. If your operations can't be sustained or make a profit, consider closing.
4. Avoid borrowing money early in the COVID-10 crisis. Borrowing money too early will limit your ability to qualify for funding options later – during the recovery period, when more advantageous funding options will likely to become available.

- Typically, after disasters, government – at the local, state and national levels – will offer grants and/or low-interest loans to spur economic relief. Some of the loans may be forgiven over time! However, if government dollars are used to determine economic injury, they may apply the Duplication of Benefits (DOB) Policy. The DOB subtracts all previous government and/or insurance proceeds previously received for the same economic injury event. An SBA loan or guaranteed loan is considered to be a government benefit. For example, if your business qualifies for a \$200,000, 2% loan in August, the \$100,000, 8% loan that you received in March would be subtracted from your loan amount, reducing your loan to \$100,000. Most often, the DOB policy would not allow you to refinance any previous debts with the new benefit award.

So how long will this pandemic last?

No one knows. That's the uncertainty factor in this equation.

With any luck or good public policy, it could be short-lived, say 60 days. However, we could be in for a 6 to 9-month battle with an invisible and dangerous enemy. It is clear to say, that the longer it lasts, the worst the impact will be on the economy and the longer it will take for the economy to be restored back to its past condition. Some models suggest that the economy will be permanently altered as it relates to how we relate as humans and the way we conduct business going forward.

But to be clear, as March 21, 2020, the recovery from the COVID-19 pandemic, in the United States, has not begun. We are still in the early stages of the crisis. That is important to understand as you contemplate your strategy. We are still in crisis mode. Recovery has not begun yet.

So why borrow money at the beginning of a crisis with an uncertain timeline?

If you must borrow money now, make certain that it is beneficial, and the loan proceeds will yield an investment return. Otherwise, you risk not being able to repay the loan and defaulting on loans may disqualify your business from future recovery funding aid. And as mentioned earlier, borrowing money too early in the crisis, would reduce the amount of more advantageous funding aid to come as the real recovery begins. And finally, any loans you add to your balance sheet now will further debt leverage your business and place downward-pressure on future borrowing capacity when your file is underwritten for future recovery loan opportunities.

It is advised that you're business-wise and strategically smart as you map out your business financial plan over the next six (6) months.

Respectfully,

The CUEE Team