

## FINANCIAL ASSISTANCE

# COVID-19's continued impact on loan markets and the status of federal aid programs

The economic repercussions of the COVID-19 pandemic persist, leaving commercial loan borrowers and lenders alike navigating uncertainty and challenges of an economic downturn. The below discussion highlights specific issues in financing relationships that lenders and borrowers must consider in light of



**Emily Cohen**  
Senior Associate  
Harter Secret &  
Emery LLP

the ongoing pandemic as well as updates the status of the popular Paycheck Protection Loan Program. The below is not exhaustive but is meant to highlight the need for extra consideration on the part of both lenders and borrowers in navigating these uncertain times.

### Ongoing Forbearance Concerns:

As regulators continue to encourage financial institutions to work with their borrowers who may be impacted by the effects of COVID-19, lenders must be prepared to quickly assess funding requests and evaluate the quickly evolving credit risk caused by the unprecedented uncertainty



in the financial markets. The ongoing negative impacts of the COVID-19 pandemic will result in the continued difficulty of borrowers to comply with financial covenants and possibly the ability to meet debt service requirements.

Many borrowers will be unable to regain their financial wellness and resume paying their loans by the end of any existing forbearance plan. They will need some sort of repayment plan, modification or liquidation. Borrowers should get ahead of the risks and work with their lenders now to work on refinancing or access to interim financing alternatives to address short term liquidity needs. Lenders may want to perform increased diligence on borrowers' material supply or

customer contracts that may be negatively affected by COVID-19, including force majeure and termination provisions, as well as borrowers' existing insurance policies covering business suspensions. Lenders should also be careful before waiving any defaults under existing loan documents in order to keep their options open and ensure they retain future rights.

### Status of the Paycheck Protection Loan Program and Other Sources of Federal Aid:

PPP loans have helped millions of businesses sustain operations and retain employees since its launch in April, but the program has not been free from controversy. According to the June 27th report of

the Treasury over 4 million businesses have accessed over \$520 billion in emergency loans. Congress recently extended the application deadline and over \$100 billion remains available to small businesses and eligible non-profits. As borrowers start to submit loan forgiveness applications, open questions remain over borrower certifications, use of proceeds and reductions in forgivable amounts based on headcount or salary reductions. Borrowers should continue to work with their legal and financial advisors and stay up to date on continued guidance regarding the program.

While the PPP loan program and negotiated forbearance arrangements begin to expire, it remains true that many small businesses will continue to struggle in the weeks and months to come as the COVID-19 pandemic and related economic uncertainty continue on. It appears there is consensus from the government that more must be done to aid businesses, but it remains to be seen what form such aid will take.

Emily Cohen is a senior associate in the Corporate practice at Harter Secret & Emery LLP. She can be reached at [echoen@hselaw.com](mailto:echoen@hselaw.com).