Understanding Title IV of the CARES Act

Guidance for companies and other entities seeking financial stabilization

What is Title IV?

Title IV of the CARES Act was enacted into law as a stimulus response to the novel coronavirus pandemic. This legislation allows for grants, loans, and direct investment for companies that experience material losses due to the impact of COVID-19. Potential applicants for stimulus funding must understand the process that the US Department of Treasury will use to decide on an investment, fund it, and then follow up on it.

How do I ensure my organization receives support?

There are three phases involved when receiving support under Title IV. These refer to the financial relief companies can apply for and are separate from the tax relief provisions and paycheck protection program for small businesses.

1. First is the **front office and decision-making phase**. In this phase, the Treasury collects information to determine an entity's eligibility and the amount it is eligible for under the program. Organizations will want to ensure they provide accurate information supported by evidence and data. Once the information is received by the Treasury, an investment committee will use a decisioning process to establish approval procedures. Next, an authorizing official will decide eligibility, the form of investment, and the amount. Decisions will be made on a case-by-case basis, at least initially. During the approval process, an applicant may be approached by law firms the Treasury has retained to create closing agreements. In some cases, the terms may be negotiable, and recipients should be prepared to negotiate items such as interest rates, timeframes, and other variables. At the conclusion of this phase, a closing date and the distribution of funds is scheduled.

2. The next phase is the **closing and funding phase**. Closing and funding happen in parallel. Closing involves the signing and exchanging of documents between the Treasury and the applicant. The Treasury's lawyer, the applicant's lawyer, the bank (if applicable), and the Treasury sign and exchange documents, which are then sent to the Treasury's custodian. Funding involves the process of confirming the government has received the countersigned documents and wiring the funds to the applicant's account. Funding is scheduled in advance and is subject to several nuances, including the Treasury's fiscal projections, cash on hand, and the time it requires to record the accounting, apportion, and obligate the funding. Payment occurs when Treasury officials acknowledge they have complete and signed documents, and funds are released according to a negotiated schedule and criteria.

3. The final phase is **asset management and reporting**. In cases of Treasury-owned programs, the Treasury will manage assets, but leverage a third-party custodian (e.g., a bank). This phase involves various types of asset activities (e.g., principal and interest payments on loans), performance and compliance monitoring, and oversight, which will include comprehensive reporting on funding, compliance, and—in some cases—the use of funds. Entities that receive funding should expect to comply with rigorous reporting requirements on the detailed use and impact of the funding. Also included in this phase is disposition, when the Treasury exits its asset position. Based on the type of asset, disposition can be straightforward or complicated, and entities should be prepared for this in advance.

What forms of assistance are available?

Entities interested in support under Title IV should be familiar with the four forms of government assistance available. These include single and multi-award grants, loans, loan guarantees, and equity.

- For single and multi-award grants, funded entities must be willing to comply with the terms of the funding and monitor performance and outcomes. As noted earlier, entities that receive grants should be fully prepared to be completely accountable for how every penny is used. Accounting for, tracking, and reporting will be required, and ensuring compliance with the grant terms will be crucial.
- For loans, entities will have to make loan payments, but they will also need provide evidence that they are meeting the compliance requirements of the loan. In addition, entities will be required to report on the impact of the loan and the loan's performance. For loans with the potential to be forgiven in the future, entities should prioritize understanding the requirements and tracking progress toward forgiveness.
- Loan guarantees will be similar to loans and will have similar compliance obligations from the Treasury's perspective. However, the Federal Reserve or the financial institution initiating the loan may impose additional obligations beyond what the Treasury is asking for.
- Equity arrangements will take the form of warrants and equity, with either being for common or preferred stock. For warrants, entities should be aware that the government will choose when to exercise the warrants. During the Troubled Asset Relief Program (TARP), for example, the Treasury waited for market conditions to stabilize and then exercised the warrant and sold the stock simultaneously, as it was not interested in holding stock long term. As this can be disruptive for entities, leadership should be prepared to manage these circumstances.

How Guidehouse can help

For many companies and organizations, the application, monitoring, compliance, accounting, and reporting requirements required by this stimulus will be a burden—one they are not prepared to shoulder. Guidehouse has the experience and knowledge of our clients' operations and the execution of similar programs by the US Federal Government to support a wide variety of entities during this crisis. During the financial crisis beginning in 2007, Guidehouse helped Treasury stand up TARP, creating the accounting, internal controls, and strategy. We also helped numerous agencies and companies implement the American Recovery & Reinvestment Act of 2009 (ARRA), which—similar to the CARES Act—carried detailed reporting requirements on use of ARRA funds. We understand from our experience what entities that receive these stimulus funds will have to do, and we are here to help, specifically with:

- Navigating the front-end process with the Treasury to understand the application process, terms and conditions, and ensuing requirements.
- Accounting for, tracking, and reporting on the detailed use of the funds, as well as the impact and results that the federal government will want disclosed. This will help your company defend use of the funding and meet transparency requirements.
- Strategy for the re-stabilization of your business, and communication with customers, employees, and the capital markets.

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About Guidehouse

Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. We help clients address their toughest challenges with a focus on markets and clients facing transformational change, technology-driven innovation and significant regulatory pressure. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we help clients create scalable, innovative solutions that prepare them for future growth and success. Headquartered in Washington DC, the company has more than 7,000 professionals in more than 50 locations. Guidehouse is led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets and agenda-setting issues driving national and global economies.