



COPING WITH INSIGHT
By Daniel M. Isard

I will leave to others directions on dealing with the body and dealing with the virus. We want to focus on the business. There is no one that knows what to do. We have never had the equivalent of a world-wide zombie apocalypse before. There are no books to tell business owners how to adapt to higher mortality, sequestration of consumers, bi-polar stock markets and the economic fear in our hearts.

Everything is fluid. What works today won't work tomorrow. Matters of law and regulation yesterday may be amended today and again tomorrow. As a business owner you need to deal with the rules of the game as of today knowing there may be changes. You must be rigid in your belief and flexible in your decision making.

All the rules have changed. We paid our bills on time in the past to keep good credit. It is easily obvious no one is going to care about your credit score when this ends. Credit scores are relative. Almost everyone will have impaired credit.

The number one objective is to survive. We know there will be an end to this. When the end comes, many funeral homes will not survive. You must.

To that end...

We are going to bring you insight on running your business, in as timely a way as possible, subject to the right to amend matters when things change.

The Insight Step 1, "Cash Is King"

We know funeral services, visitations, other gatherings and receptions will be sharply reduced. We know families will be spending less and more will be choosing direct cremation and burial. Your Revenue will be impaired. You need cash to keep your business operating. You must do everything reasonable to maintain and build cash. You can't serve families if you don't have cash.

To preserve cash you must be prepared to do the following until this crisis is resolved:

- Don't pay Federal Income Taxes.
 - There is a limited moratorium to July 15, 2020 as of now.
 - Don't pay estimated taxes for 2020. You have no idea what your profit is going to be for this year.



- Be judicious in what bills your business pays and when. Make hard decisions. Small discounts may not be worth it.
- If you need the SBA Disaster Relief Loans,
 - These loans may be used to pay fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact. The interest rate is 3.75% for small businesses without credit available elsewhere; businesses with credit available elsewhere are not eligible. apply for them but...
 - It is not a quick answer
 - You cannot prove the extent of your damages yet.
 - It will take more than a month, most likely, to get any loans.
- Be prepared to talk to lenders
 - About a period of deferred payments
 - Refinance higher rate loans at a lower rate
- Know where you as a business owner can get cash if you need it
- Any loans that you can draw down on do so.
- Be cautious about having more cash in any bank above the FDIC limit of \$250,000 per depositor per bank, so maybe you need to open accounts at other banks, even if one is an on-line bank.
- Reduce overhead but not at the point of irrevocably doing so
 - Non-essential staffing cuts
 - Review marketing messages
 - Not the time to buy a new hearse or any livery unless necessary
- Be prepared to revise your General Price List to enhance your service revenue.
 - The Basic Non-Declinable must be set accurately for burial and cremation calls alike
 - Don't put much emphasis on your facilities for now as they are not going to be use too much during this crisis



The Insight Step 2, “Lead Your Staff by Serving Your Staff”

Nationally, we have seen funeral services, visitations, other gatherings and receptions will be sharply reduced. We know this will damage your profits, impact your cash, reduce receivables and alter your valuation.

- Keep your Staff Safe
 - Work from home
 - Teach them
 - Use Universal Precautions
 - Avoid being out in public
 - Assure them
 - Apply for loans
 - Forgiveness of Principal is based upon payroll
- Determine Essential v Non-Essential staff
 - **Essential** are generally **defined** as the staff who are required to report to their designated work location, to ensure the operation of **essential** functions or departments during an emergency or when the management is contemplating suspending operations.
 - Arranger
 - Embalmer
 - Removal
 - Cleaning staff
 - Administrative support
 - **Non-essential** Employee Designation shall be indicate the result of the job description and the current need to serve the public through your business in the current times/conditions.
- Keep employed
 - Amend Salary to Hourly
 - Alter number of hours
 - Don't process insurance yourself
 - Use 3rd party
- Stimulus bill provisions
- Department of Labor cautions
- If you have to terminate
 - No emotional decisions



Three Specific Small Business Loan Packages and Stimulae

To be an eligible small business, a firm must have less than 500 employees and there is a revenue cap probably determined by NAIC six digit code. The SBA defines a funeral home, cemetery or crematory as a small business when they have revenue under \$8,000,000. The package uses \$10,000,000 in its language, so if you are between \$8 and \$10 million of Revenue apply.

Benefits 1 and 2 of the items listed below are part of the **Keeping Workers Paid and Employed Act**.

1. **The CARES Act.** For existing SBA loans, there will be a 6 month period when the SBA will make the payments for the borrower. There is no need to apply. The payment program will be automatic for anyone who has an SBA loan. The starting date for this plan is not yet your April payment.

Since many small businesses do not have an SBA loan, this hasn't been discussed as much as some of the other provisions. If the borrower has already applied for a deferral of an existing SBA loan, the 6 months of payments by the SBA will begin at the end of the deferral period. For any new SBA loan closed in the next 6 months of 2020, the 6 month payment program will also be automatically implemented.

The SBA is still funding new deals. However, it demonstrates you need to use an SBA with PLP (Preferred Lender Privalegedes status) as the SBA itself under the GL (General Lender status) is greatly undermanned.

2. **The Paycheck Protection Program** since it is based on certain expenses to keep your employees employed. This is meant to help you pay wages & salaries (plus cash tips), group health insurance, employer retirement benefit contributions, company-paid employment taxes, as well as rent, mortgage and utility payments plus any other debt obligations (with the exception of SBA underwritten loans as shown in #1 above).

The historical timeframe to be used to determine the base for the calculation is not totally clear, but the expectation is that the SBA will use the total of the above expenses for 2019 from the 2019 financials divided by 12 and multiplied by 2.5 to determine the loan amount. This amount will become a 10-year, 4% fixed loan that begins in May, 2021.



The loan may be used for payroll (including all of the above payroll related items), rent, utilities and mortgage payments excluding principal(interest). The amount of the loan spent during the first 8 weeks after the loan is issued will be subject to some degree of “forgiveness” on one year after the loan date. Any amount of the original loan that was not used in the first 8 weeks will not be forgiven and put on the 10 year, 4% fixed status with repayments beginning on or about May, 2021.

Loan forgiveness means just that; the loan, in part, is not due for repayment. This loan forgiveness amount is conditioned on employee retention. The employee census as of March 1 will be compared to the census as of June 30. The minimum retention is calculated at 75%. The forgiveness is prorated if the employees retained fall below the 75% mark. This program is available through 6/30/20.

For example: Imagine you borrow \$100,000 under the PPP. Imagine your pay all that money out to all of the qualified areas, so you have spent the \$100,000. Now, let’s see what your monthly qualified payroll is. Assume it is \$40,000. Then assume that you have not laid off any employees (or if an employee is terminated your replaced them with another person at the same salary or greater). The entire amount of the loan would be forgiven. Therefore, the government just paid for a few weeks of your overhead.

Is the loan forgiveness taxable to the borrower/company? Usually forgiveness of a note is taxable. In this case, I don’t know. Either way, you will have offsetting expenses but your may also have more profit. Never be too upset about having profit during a Zombie Apocalypse.

3. **The Disaster Relief Loan** has been available through the first stimulus package approved by Congress a few weeks ago. It is a 30 year, 3.75% loan. The application has been available online and is receiving huge curiosity. SBA estimates are that they have been receiving 30K-40K applications *per hour* for this loan program since it is the only thing available until the passage of Stimulus 3.

As has been noted from anyone who has applied, it is a long and tedious application process because of the volume of applications. It has also changed so if you began an application and went back after finding some needed data, the application is different. You will need to start over.



The website is very slow to respond. It could take up to 6.5 hours to complete. Also important is that the SBA will determine the loan amount from the data presented with the application. You also won't know the amount until your application is approved. It could be a significant amount. Some have indicated it could be up to 2 month's revenue, but no one has defined it anywhere yet.

What qualifies in funeral service as needing relief? For one thing, families are not selecting services/staffing for use of a facility either for visitation, funeral service, off site set-up, memorial service or for reception. Determine what your Average Rev/Call was before March 15 and since. Convert that to a 6 month period. Then, about 70% to 90% of that goes to the bottom line. That is your damage.

The loan programs in 2 and 3 have no personal guarantees, no collateral requirement, and are 100% guaranteed by the US Government. This is to give the implementing banks the incentive to loan the money. There is probably still be some sort of underwriting involved.

It is unclear if a borrower can receive both 2 and 3 or if it is either/or. They should apply for both and decide by June 30 whether to go the Payroll Plan route. Regardless, the SBA payment plan is not affected by 2 or 3.

Suppose you own your real estate personally and lease it to your funeral home operating company. If the purchase was underwritten by a SBA loan, those payments will be made for you. Should you still have your property leasing entity get rent payments from the funeral home? Yes!

If, you have one loan which acquired the business and the real estate, and the loan is in the name of the funeral home, should you have the real estate company make a payment for their part of the loan to the funeral home operating company? No! Because the SBA is making those payments for you for the next 6-months.

If, you have one loan which acquired the business and the real estate, and the loan is in the name of the real estate entity, should you have the operating company make a payment for their part of the loan to the real estate company? No! Because the SBA is making those payments for you for the next 6-months.



There may be other matters of benefit to business owners. We will follow-up on that when it becomes known to us. Check our blog and register so you are updated when these matters become posted.

As a business of any size, you may borrow up to \$2 million for physical damage or business damage.

As a homeowner you may borrow up to \$200,000 to repair/replace your disaster damaged primary residence.

As a homeowner or renter, you may borrow up to \$40,000 to repair/replace damaged personal property.

The direct website for this support is disastercustomerservice@sba.gov.



The Insight Step 3, “Do What You Should Have Done All Along”

- Be prepared to revise your General Price List to enhance your service revenue.
 - The Basic Non-Declinable must be set accurately for burial and cremation calls alike
 - Don't put much emphasis on your facilities for now as they are not going to be use too much during this crisis
- Communicate
 - Message changes. Be instantaneous. Reach out to be a resource. People have questions.
 - Explain from your voice. It is not one of profit, rather service.
 - Explain from other families and use their voice to talk to families.
 - Use web site to get your message out.
 - Use blogs (wordpress.com)
 - Use video
 - Don't worry about how it looks. TV live shows are from people's homes.
- Cremation pricing
 - Minimal prices for direct burial and direct cremation
 - Set dates for future memorial service
 - This year more than ever
- Software
 - Scheduling
 - Video and Web Broadcast
 - Capturing images for memory books
- Hardware
 - Make arrangements on line
 - Showroom on line
 - More use of Social Media



The Insight Step 4, “Come out of this Stronger Personally”

- Protecting the Entrepreneur
 - Your own cash
 - IRA draw down for emergency
 - SBA relief on business debt
 - Have it available
 - Save tax dollars for cash
 - Be in touch with your mortgage company (mortgage relief)
 - directs lenders holding federally backed mortgages to suspend borrowers' payments for up to 12 months if they have lost income because of the coronavirus outbreak.
 - The law also suspends foreclosure and foreclosure-related eviction action and changes the rules regarding credit reporting during some or all of the coronavirus emergency period.
- Be prepared to rebuild value
- Be prepared for the contraction of funeral homes
 - “When the tide rolls out, it is easy to see who has been swimming naked.”*

Warren Buffet
 - Year 2000 there were 22,000
 - Year 2017 there were 19,500
 - Year 2021 there will be ____?
 - Financially failure
 - Lack of cash
 - Failure to make ends meet
 - Difficulty retaining staff
 - Owner’s death
 - Any town too small to have a McDonalds should not have a funeral home (unless they have a major highway running through them)



Epilogue

This is not a political hoax.

This is not going to be over in an instant. Be prepared for six months.

It will scar each and everyone of us emotionally. Every survivor will treat this the way “Depression Survivors” would think and behave.

Those that survive (physically and fiscally) will treat their business in 2021 with respect.

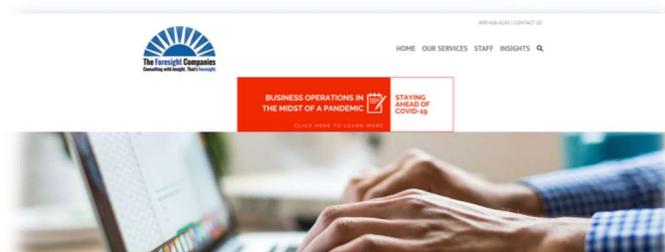
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WHAT YOU NEED TO KNOW ABOUT THE NEW
CORONAVIRUS PAID LEAVE LAW

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