




3 FORECASTS,
3 THEMES &
3 REACTIONS

The Senseless Perception of Privilege

As we enter into this fourth month of confinement due to the COVID-19 pandemic, I think it is a good moment to reflect and evaluate everything that has been happening and how our lives have changed. For one, I, being the optimist that I am, have been trying to identify the “silver lining” within all these events. I have to confess it has not been easy, but have to admit that, probably, all this has forced us to do things differently. And has also forced us to leap bound and adopt new technologies and ways of doing business that probably, in our comfort zone, we had not even considered. So, for whatever it’s worth, let’s look at the positive aspect and embrace all the good things that this unfortunate event has brought us.

Please keep safe and enjoy this issue of our Zenith Investor.


Miguel L. Vargas-Jiménez
Executive Director & CEO

We are pleased to share our first edition of our second year publishing The Zenith Investor, titled “The Senseless Perception of Privilege” The team at Birling Capital takes great pride in providing our readers with a comprehensive review of the most significant issues impacting the national and global economy, markets, geopolitics, and world issues, such as the Coronavirus pandemic. As Puerto Rico and the world slowly begins the economic recovery process, our main goal is to guide you thru this process. Thank You for your continued support.


Francisco Rodríguez-Castro
President & CEO
Birling Capital Advisors, LLC.



“The development, nurturing and mentoring of people is the highest undertaking of any leader.”

As we publish The Zenith Investor for July 2020, we continue our first month of operation after Puerto Rico allowed most Business to reopen and we have all realized the magnitude of the damage to the operations of most Business in Puerto Rico, for one there is a critical need for capital and we must all continue to protect ourselves with face masks. With that in mind, we have started to discuss **"The Senseless Perception of Privilege"**



Why wearing face masks is a life and death deal.

We have seen a significant population behave with a senseless perception of privilege; this means that some people believe they deserve privileges above anyone else; they do not care if their actions impact others and are arrogant in their actions.

Very often in life, one can find the answers to some of today's problems in the past; such is the case for the current COVID-19. We began to research the 1918-1920 Spanish Flu pandemic and found some very stark contrasts with the COVID-19. For starters, it surfaced in waves. After the first wave in the U.S., the virus abated, and like now, most Americans were anxious to have businesses reopened and for social life to resume. Then like now, there was a movement for people not to wear masks, the masks had become like now second nature to wear them. The campaign for not wearing masks became so large that The Anti-Mask League of 1919 was created. Their main argument and protests very much like today's were because they thought the public health ordinance requiring to wear masks violated their liberty, and they claimed quite unsuccessfully that it was unconstitutional. This unsensible sense of entitlement caused in the next two waves the Spanish Flu, which became deadlier between the following two waves, killed more than 675,000 Americans and killing around 100

million of the 500 million it infected worldwide. This tragedy then could have been largely avoided if the people follow simple rules of sanitation, washing hands, social distancing, and wearing face masks. The insensible sense of entitlement mixed with a dose of stubborn ignorance resulted in millions losing their lives.

As we review all available data and the areas of the U.S. where the Coronavirus has come back with a vengeance, we note that the sunbelt of the U.S. sees the brunt of the rise in cases, notably Arizona, Texas, Florida, North and South Carolina, among others. The arguments and protests in many of those states claim that face masks are unconstitutional, a violation of liberty among other arguments, eerily similar to the same arguments of the Anti-Mask League of 1919 that caused millions to be infected and hundreds of thousands to lose their lives.

Pandemics are not political issues, where one can argue against a position, Pandemics don't care about theories or speculations or losing liberties. Once the Coronavirus attacks you and begins to destroy your respiratory system, the senseless perception of privilege you once had would have wished you wore a face mask.

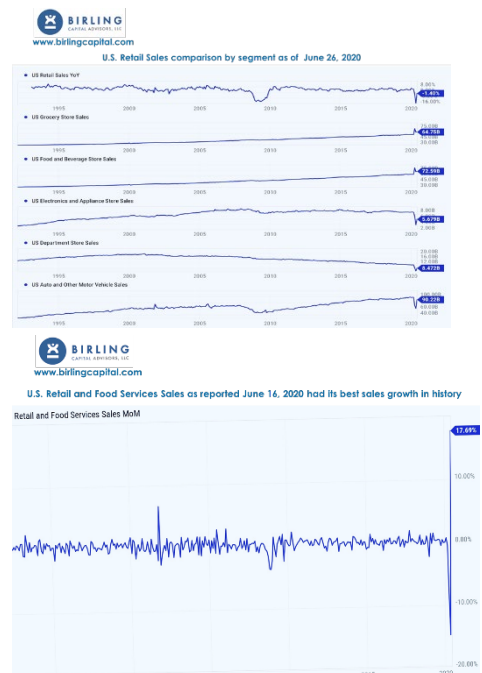
Birling Capital has ranked the places with the highest(4) and lowest (1) risk of contagion in Puerto Rico:

- Bars, Chinchorros & Music Concerts: Risk Level 4
- Gyms, Churches, Sports Events & Buffet Restaurants: Risk Level 3
- Public Pools, Playing Basketball, Schools and Universities: Risk Level 3
- Cinemas, Casinos, Barbershops, Restaurants eating indoors, Playgrounds, Beauty salons: Risk Level 3
- Planes, Malls, Beaches, family parties, family BBQs, Bowling Alleys: Risk Level 3
- Dentists Offices, Medical Offices, Offices in general, Restaurants consuming outside and Streets with high pedestrian traffic: Risk Level 2
- Museums, bookstores, Supermarkets, Hotels & Golf Courses: Risk Level 2

- Gasoline, Walking, Jogging and Cycling: Risk Level 1
- Take Out Restaurant Orders, Play Tennis: Risk Level 1

Forecast 1: Economic Recovery Derailed with New COVID-19 Wave.

We were quite positively surprised with last month's U.S. Retail and Food Services Sales, rising much more than the 8% forecast, to a record 17.69% gain in May. Consumer spending represents 70% of Gross Domestic Product, the increase of the retail sales signals that the worst was left in March and April. Moreover, this behavior offers the impression that as lockdown orders are eliminated, consumers are ready to step in and spend their money. While there may be some nonrecurrent payout such as stimulus checks, payment protection plan payout, and the increased unemployment benefits has provided in some households with increased liquidity. While we are quite impressed with the rise in the retail sales fortunes, we are also concerned with the so-called "New Wave" of COVID-19 infections. The increase of cases has been reported in several key states. The Governor of Texas, Gregg Abbot stopped any further economic reopening as new Coronavirus cases rose in a week reaching more than 24,000 new cases. Texas also banned elective surgeries freeing up hospitals and stopped the plan to ease lockdown restrictions.



The COVID-19 case rising in one week, including Florida, Texas and other states in the south surpass 50,000 new cases. If this wave continues, and with it, an increase in cases, hospitalizations, and deaths occur, the implications for the still young economic recovery will be quite severe.

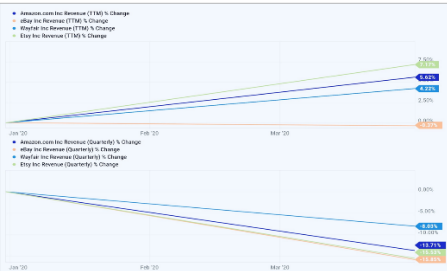
We continue to adhere to our view that should a more durable "New Wave" of COVID-19 infections occur, it may as it did during the 1918 Spanish Flu, it may come back more severe. Thus, the reactivating of the economy will not be simple and easy with significant roadblocks along the way. New Waves of COVID-19 may cause business closure, lockdowns orders, repeating all the precautions, and potentially rolling back all the progress.

“Knowledge alone is capable of transforming the world, while at the same time leaving it exactly as it is.”

Yukio Mishima



U.S. Online Retailers as of June 19, 2020



Forecast 2: Coronomics: The next normal for Puerto Rico Owned Business.

The coronavirus pandemic not only one of the worst health crises of the last 100 years, but it has also forced a complete overhaul of the global economy. We have seen once-mighty corporations fall as Coronavirus has impacted their Business so dramatically that it forced them to file bankruptcy. Among them the following well-known corporations such as Avianca, Hertz, J.C. Penney, Neiman Marcus, and Virgin Australia. We can only wonder how many Puerto Rico Businesses will file for bankruptcy. For most corporations near term, survival is the only item on their list, while Others were attempting to see beyond the Crisis to determine how to position themselves.

On the economic front, a critical financial benchmark, U.S. Retail, and Food Services Sales, rose much more than the 8% forecast, to a record 17.69% gain in May, compared with a record 14.75% drop in April.

The Federal Reserve Bank announced it was expanding its credit market activities by purchasing corporate bonds. Finally, there is consistent chatter that the White House and the senate may be working on an infrastructure plan that may be as large as \$1 trillion. We believe that the combination of job gains in May and the rebound in retail sales can give investors some confidence that an economic rebound is underway. The combination of these actions was able to reverse the market losses.

Puerto Rico Must capitalize on the excess liquidity of federal funding, that is more that we highlight as follows:

- \$ 83 billion related to hurricanes included in the Fiscal Plan 2019 & 2020
- \$ 600 million associated with the earthquakes
- \$ 14 billion pertaining to COVID-19
- **A Total of \$97.6 Billion in increased federal funding and liquidity.**

Forecast 3: Puerto Rico’s Lack of Access to Capital to Impact Business

The coronavirus outbreak has thrown the U.S. & Puerto Rico into a systemic risk crisis that will result in close to 10,000 to 15,000 business closing and losing another 100,000 jobs in Puerto Rico. While robust institutions may be able to brush off the impact of the adverse effects of the pandemic, a significant majority of Businesses in Puerto Rico will not be able to recover.

- The direct impact increased of the COVID-19 lockdown is north of \$9.7 billion, with the total result being more than 45% higher than any jurisdiction, on account of the extended lockdown.
- During the last decades, Puerto Rico has seen its access to capital severely hindered; for one, we have seen the exodus of all International Universal banks and some local banks from Puerto Rico. Currently, the Puerto Rico market is controlled by three local banks that

have grown in size and capitalization. Still, their lending appetite has become quite timid during the last decade, a situation that will continue to inflict harm into most businesses in Puerto Rico.

- Puerto Rico Business needs a lending program with a \$2.0 billion in funding from the U.S. Government to support all Small and Midsize Businesses operating in Puerto Rico. This program will allow Businesses to expand the financing sources available for them and to preserve their operations, enhance their capacity, increase their resiliency, and further their development.
- One of the ideas is to transform and recapitalize the Economic Development Bank for Puerto Rico (EDB) while granting it \$2.0 billion in fresh capital to allow the EDB to fully commit itself to offer all types of loans to Small and Midsized Entrepreneurs. While doing so, the law of the EDB should be changed to create a board composition mainly of private sector directors and two government agency heads. The EDB should be the only entity from the Government of Puerto Rico, providing financing to the private sector.

• By providing assistance to the EDB through federally guaranteed funding estimated at \$2.0 billion Congress will help 3.5 million American citizens recover from the current threat and allow the Business to bring up to date their facilities, acquire needed equipment and continue being a major catalyst of the economy of Puerto Rico with decent-paying jobs.

Introduction

The White House and Congress have acted swiftly in developing and implementing programs such as the first three and a half stimulus bills. At the cost of \$2.7 trillion, while it will take some time to understand the overall effectiveness of these funding bills fully.

The COVID-19 pandemic lockdown has made this Business lost a significant part of their revenues and income streams have evaporated, along with their financial wellbeing. While robust institutions may be able to brush off the impact of the adverse effects of the pandemic, most institutions will not be able to recover fully and will ultimately

close, leaving thousands of workers without jobs, and the overall business ecosystem of most communities will suffer during a time when most citizens need it most.

The coronavirus outbreak has most Business throughout the U.S. and Puerto Rico into a systemic risk crisis.

The situation in Puerto Rico is even direr, as Governor Vazquez implemented a lockdown of Puerto Rico on March 15, 2020. Below of a summary of economic impact.

Lack of Access to Capital

During the last decade, Puerto Rico has seen its access to capital severely hindered; for one, we have seen the exodus of all International Universal banks and some local banks from Puerto Rico.

Since 2008, we have seen the following banks exit the Puerto Rico Market:

- Citibank
- Banco Bilbao Vizcaya Argentaria
- RG Financial
- Westernbank
- Eurobank
- Doral Financial Corporation
- Banco Gubernamental de Fomento
- Scotiabank
- Banco Santander (in process)



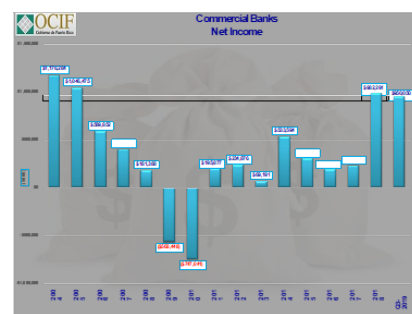
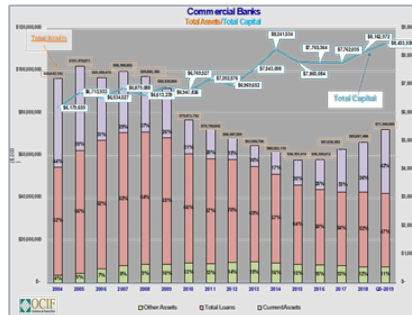
As these nine banks exited the market with them, Puerto Rico lost more than 50 percent of its commercial lending capacity, and most businesses have to utilize now "Alternative Lending Operations" that charge interest rates that surpass 20% in most instances.

Currently, the Puerto Rico market is controlled by three local banks that have grown in size and capitalization. Still, their lending appetite has become quite timid during the last decade, a situation that will continue to inflict harm into most businesses in Puerto Rico.

According to the Office of the Commissioner of Financial Institutions (OCFI), we note that in 2008 there were

\$60.2 billion in loans outstanding in Puerto Rico granted by the Commercial banks alone. By the year 2019, the total commercial loan portfolio has reduced to \$33.5 billion, a decrease of \$26.7 billion. These are very significant reductions in a tendency that will worsen as the Puerto Rico banks monopolize the market.

We are concerned for all Small and Midsize entrepreneurs, who are the lifeblood of many communities. Most have been severely affected by the lack of access to capital.



Due to the lack of capital, they are unable to grow, replenish supplies, seek new inventories, or to improve and follow the American dream. We must fix this situation.

You may ask why? Well, during the same period from 2008 to 2019, the banks' capital grew from \$6.4 billion in 2008 to \$7.7 billion in 2019, an increase in equity of \$1.3 billion or 20.30%.

We share the latest numbers published by the "OCFI" shows how robust the capital of the Puerto Rico banks, how profitable they are, and how much their design has reduced their lending activity.

Initiative

Puerto Rico businesses are reeling from the necessary steps taken by the Government to curtail the spread of disease. The situation is dire to the point that we are at a crossroads in a moment where we need Puerto Rico's save our Business more than ever. If we have our

institutions are fighting to make ends meet instead of investing in supplies, inventory, technology, new products, and services, it can prove devastating to many. The Government must step in and provide a safety net to our institutions. The Government of Puerto Rico must create a robust program to finance and refinance medical facilities. If we apply the lessons learned from the banking crisis, loaning out to Business at reduced rates would create enough savings across the board to get Business back to health.

In order to address the deficiencies as mentioned above, the Congress is called upon to develop and support initiatives that cannot only address the immediate emergency threat of COVID-19 in the short run but also it must do so through long-lasting initiatives that can bring the Puerto Rico business sector back to life.

Need to Create a Lending and Investment Program

Puerto Rico has the Economic Development Bank (EDB); we need to make it more durable and free it for the political turmoil.

For this reason, we support a plan to transform the EDB into a quasi-private institution with governance similar to those of Invest Puerto Rico and Discover Puerto Rico and recapitalize it with a \$2.0 billion in funding from the U.S. Government to support Business operation in Puerto Rico.

This will allow to expand the financing sources available for the Business operations of Puerto Rico and to preserve their services, enhance their capacity, increase their resiliency and further their development and in tandem with the U.S. Treasury to complement the Federal Reserve Bank's lending capacity for this sector.

Establishing a Puerto Rico-Small Business Lending and Recovery Program (PR-Save Business) in the EDB will allow Puerto Rico business to survive the worst pandemic of our generation. In trying time American Citizens have been able to survive with the help and support of the safety net that Congress has provide, this time we face a similar crisis.

Puerto Rico- P.R. Business Resiliency Initiative Program (BUSRIP)

This program is a multi-faceted program to allow the Government to invest, lend, grant, or guarantee financing to any Business operating in the U.S.

The PR-Save Business program should be funded with a minimum \$2.0 billion investment from the U.S. Congress; this investment would be administered and implemented by the Treasury. The Treasury would create a separate entity to administer the program.

As BUSRIP is created with a \$2.0 billion investment to expand the financing sources available for the business operations in Puerto Rico and to preserve their operations, enhance their capacity, increase their resiliency and further their development and in tandem with the Economic Development Bank to complement the Bank's lending capacity for this sector.

BUSRIP will have the legal power to invest in capital stock, grant loans and guarantee long-term loans for all Business.

- i. Maximum Advance Rates:
- ii. Real Estate: 110% of fair market value
- iii. Equipment: 100% of fair market value
- iv. Inventory: 80% of book value
- v. Accounts Receivable: 80% of book value (less than 180 days)
- vi. Maximum amount of a loan amount?
- vii. \$250 million
- viii. What are the loan terms?
- ix. Maximum term is 30 years
- x. Interest-only payments for the first 5 years
- xi. Pricing and interest rates?
- xii. Interest rates are to be fixed Libor for the term of the loan.

Government Recovery & Investment Program (GRIP)

The GRIP allows for the issuing of equity warrants allowing any institution to request a financial institution to issue equity warrants (a type of security that entitles its holder to purchase shares in the company issuing the security for a specific price), or equity or senior debt securities (for non-publicly listed companies) to the Economic Development Bank for Puerto Rico (EDB). In the case of warrants, the

EDB will only receive warrants for non-voting shares, or will agree not to vote the stock.

This measure is designed to protect the Government by giving the EDB the possibility of profiting through its new ownership stakes in these institutions. Ideally, if the Business benefit from government assistance and recover their former strength, the Government will also be able to profit from their recovery.

GRIP will use \$100 to \$300 million from BUSRIP capital and generate significant purchasing power to invest in warrants for the Business with the potential to expand the program over time.

At the same time, the difficulty of obtaining private financing on reasonable terms has limited the ability for Business to face the current challenges.

The GRIP is designed to insert new capital into the system by providing government equity and attractive public financing. This program facilitates the rapid resiliency and recovery of the sector and over time, to reduce the systemic risk.

The sole focus for the Government's GRIP are Puerto Rico Business

The Valuation of Warrants and Preferred Stocks- Initial Valuation Once a Business becomes eligible, the EDB will hire a third-party valuation firm to produce an initial valuation.

The EDB will use the initial valuation to determine the enterprise value of the Business. The EDB will invest in warrants or preferred stock at the London Interbank Offered Rate (LIBOR Rate), capitalizing any interest for the life of the investment and the GRIP has the option of converting the investment into a grant.

The GRIP will be designed around five basic principles:

- i. Protecting the financial health of all Business and by doing so we protect 3.5 mm U.S. citizens from Puerto Rico.
- ii. Avert a systemic risk.
- iii. Maximizing the impact of the Government's Investment dollars: by using government financing in partnership with Federal Initiatives thus creating significant purchasing power.

iv. Balancing the islands economic development model.

v. Shared risk and profits with the participants.

What is the EDB's role- Originates, processes, and services loans.

Submits guarantee applications to the state for review/approval, and obtains assurances of eligibility from each borrower. Establishes terms and conditions, pricing, disbursement, contracts, budgets, reporting requirements, databases to support the program, and other administrative elements.

What is the potential role of an implementing agency/entity- Acts on behalf of the state to administer the Loan Guarantee Program. Assists in marketing the program in their region or community.

What is the role of the trustee and the reserve fund- Invests conservatively as dictated by the state's investment guidelines. Supplements administrative costs through interest earnings.

The COVID-19 emergency is disrupting all business operations because of sudden closure due to the lockdown. It is causing enormous losses if they do not receive the necessary financial assistance by the governmental entities, whether it is the state or federal entity.

Positively, the Business has received little financial aid from the provisions of the CARES Act. As of the day of this report, without financial assistance and losses of \$10 billion, the Puerto Rico Economy will never recover.

One thing is for sure, without Congress's direct involvement, the Puerto Rico Business sector would disappear before the end of the year.

Similarly, as stated by Congress, when TARP was approved, and we quote.

• "The goal of TARP was to mend the financial situation of banks, strengthen overall market stability, improve the prospects of the U.S. auto industry, and support foreclosure prevention programs. TARP funds were used to purchase the equity of failing Business and financial institutions."

• As we noted at the beginning of our discussion, TARP existed due to Wall

Streets' greed; The BUSRIP program would exist to allow Businesses to survive the worst pandemic the world has seen in the last 100 years. Without BUSRIP, the Business sector will not be able to survive.

Thus Access to Capital, should not be a roadblock for Puerto Rico's Economic recovery.

Theme 1: Month in Markets: June 2020 a teeter-totter Month, COVID-19 Surge Impacts Markets, The U.S. Stock markets ended the month with slight gains, amid one of the most volatile months in memory. However, when we review this quarter, we note that it has been the best in almost twenty years, as all indices grew in the double digits. **The performance of the quarter was as follows:**

- The Dow Jones Industrial Average up 4,869.37 or 23.25%.
- The S & P 500 Index up 629.79 or 25.49%.
- Nasdaq Index up 2,698.19 or 36.66%.
- Birling Capital Puerto Rico Stock Index up 319.08 or 28.21%.

Quarterly Market Close Comparison	6/30/2020	4/1/2020	Change%
Dow Jones Industrial Average	25,812.88	20,943.51	23.25%
Standard & Poor's 500	3,100.29	2,470.50	25.49%
Nasdaq	10,058.77	7,360.58	36.66%
Birling Puerto Rico Stock Index	1,450.22	1,131.14	28.21%
10-year U.S. Treasury	0.66%	0.64%	3.12%
2-year U.S. Treasury	0.16%	0.20%	-20.00%

In absolute terms, we can thank the Federal Reserve Bank and the U.S. Congress for acting decisively to avert a more profound economic impact. These surpass those of the great financial crisis.

As the U.S. and the world, economic data continues to improve, mixed with the hopefulness of the economic recovery, it has provided investors with the confidence to come back to the markets. However, some states have halted reopening plans as they continue to register thousands of cases.

Results for June 30, 2020

- The Dow Jones Industrial Average closed at 25,812.88 up 429.77 points or 1.69%.
- The Standard & Poor's 500 closed at 3,100.29 up 55.98 or 1.84%.
- The Nasdaq closed at 10,058.77 up 568.90 or 5.99%

- Birling Puerto Rico Stock Index closed at 1,450.22 down 41.38 or 2.77%.
- The U.S Treasury 10-year note closed at 0.66%.
- The U.S. Treasury 2-year note closed at 0.16%.

Which Trends should Investors should be mindful of?

Fortunes are gained and lost because of good or ill-timed decisions. When dealing with the stock market one adds several layers of risk and market dynamics, in light of all that is going on in the market now, we want to provide some trends that will help you navigate this scenario.

•The Economic Recovery and any new COVID-19 Impact: The significant rise in the prices of most stocks have been based on the reopening of the U.S. economy, mixed with the timely fiscal stimulus from Congress and very aggressive monetary policy implemented by the Federal Reserve. A set back due to COVID-19 Infections may derail both the way the economy recover as well as the current pricing of stocks. Investors must be quite vigilant of all developments to stay ahead.

•Corporate Earnings: The second half of the year will be quite telling to evaluate how quickly most corporations recover from the imposed lockdowns. We already noted that the U.S. Retail sales reported the most significant jump in history at 17.69%, providing a sense of where the economy may be headed. However, we must comment that the consensus estimates predict a 44% decline for all S&P 500 companies compared to 2019. This would be the most significant decline since the great financial crisis of 2008. However, the silver lining is that the economy is on the right track, and we could be in for a positive surprise.

•Banking Sector Earnings and Loan Losses: The banking sector has been quite active with the Paychek Protection Program and other stimulus programs. One must consider, the fact is that there is a



broad exposure to the banks to all kinds of industries that have been impacted by the Coronavirus pandemic in one way or the other. We feel that evaluating the bank's earnings, and their loan loss reserves will be a pivotal barometer to determine the health of the overall economy.

Lastly, a common theme we recommend to all investors is the benefit of a diversified portfolio that maintains the right balance of stock and bonds, consistent with your overall risk tolerance and long term goals.

Theme 2: One Nation, 1,000 Colors, All Beautiful.

As my high school education was to begin, my parents decided to sent me stateside to high school. Thankfully there was a group of us from my hometown of Ponce also going so the adjustment while trying; I had familiar faces to talk things over. During my freshman year, I began to notice the titles some of my classmates gave each other: Italian-American, Irish-American, Afro-American, Greek-American, Arab-American, or Hispanic-American, among others.

For me, it was not easy then to comprehend the significance of these Origin-titles because in Puerto Rico, you are either Puerto Rican or you're not. There is no other acronym that we use to define ourselves. I have always found these origin-titles divisive, racist, and culturally wrong; in my view, these separations of race by origin have created and continue to generate a bias in the minds of most U.S. Citizens. We must all recognize that

the use of terms like African-American, among others, are part of a movement of self-determination, and is used to distance themselves from other manners of referring to them.

After all, we are "One Nation, 1,000 Colors and all beautiful"; you see, we are either Americans or not. Before using the word American, there is no need to segregate anyone using Afro, Italian, Irish, Arab, Hispanic, or Puerto Rican. When we use our U.S. Passports, they are all blue, with white pages and the U.S. National Emblem proudly on the cover. Nowhere in the document does it say anything other than United States Citizen.

As we relive the discrimination that has resurfaced in the U.S. due to the current tone of the Trump administration, It has become clear that the proverbial melting pot society is supposed to be the United States of America only exists in theory, not in action.

While we need to understand the role of culture in the development of any nation and the origin of its citizens, I do not believe that using the origin titles makes much sense other than parcel out differences. My first year of high school allowed me to meet people who saw the world in a different light than I. The more I learned about why they held their beliefs, the more I understood. Today, we must acknowledge the broader diversity in and of the American experience and attempt to eliminate the many unnecessary obstacles that we all face due to constructions and perceptions of race, class, gender, or sexual orientations in the United States of America.

More than 50 years after the Civil Rights Act, 60 years after Brown v. Board of Education, and many diversity initiatives, I can say without hesitation, the United States' track record of creating opportunities for non-white and ending racial discrimination has decidedly wrong.

The United States of America has allowed discrimination to flourish during the Trump presidency. The President does not understand that there are not two sides of hatred, or two sides of bigotry, or two sides of racism. The only correct course of action is to denounce all discrimination, hatred, and intolerance in the U.S.

Since 2017 we have had a combative, insensitive, immature leader, who thinks only of himself when attempting to lead a nation. He has only succeeded in dividing the U.S. to levels of those that compare to the Civil Rights era. I know most of our fellow citizens all they want for the Nation to flourish and with it all its citizens to live the American promise of peace, prosperity, and respect.

Theme 3: The Scars of Slavery, An urgent conversation for America.

I have to admit that until a few weeks ago, I was under the impression that eliminating statues and other monuments was an attempt to erase history. In my view, history should not be deleted. However, after the recent turmoil that has erupted from the homicide of George Floyd, I began to test my beliefs.

The U.S. is not alone in confronting this dilemma of eliminating signs of the past that are hurtful and may remind everyone of a terrible chapter in a nation's history. Most countries around the World routinely handle reminders of unpleasant chapters in their history. Recent reminders include Irak, Spain, Ukraine, and Taiwan. But Germany has been grappling with this issue for the past 75 years; If you go to Germany today, you will not see a single marker that reminds any German of the Nazi rule. The only exception is the concentration camps, which serve as a reminder of what happened to the Jewish in Germany should never happen again. The Germans have adopted a simple reality: Not seeing the markers means that they have forgotten the past. Thus removing the remnants

of a hateful society does not constitute in itself cause for any celebration, what matters is How do we approach the aftermath that is of critical importance.

The German example is unique as the nation did not seek closure as they thought it was not obtainable; instead, they view their history as a scar that has taken its time to heal.

Here in the U.S., some States continue to defend these reminders of America's Confederate past. The very formation of the Confederate states and its secession was to keep African Americans as slaves, and it took a war from 1861 to 1865 and 620,000 deaths, which represented then 2 percent of the total U.S. population. Not only are the states promoting a long-lasting clash with the past, but they are also pouring taxpayers' money to conserve and maintain statues and monuments of leaders who died as enemies of the U.S. As a nation, the U.S. must embrace changing its tune to allow for all Americans of all colors, religions, origins, and beliefs to co-exist. However, preserving painful periods of our past calls for mature negotiation by our civic society.

The lessons learned from Germany can provide a deep insight as the U.S. society begins to think about destroying all Confederate monuments, As I believe that all Americans must have the problematic debates to ultimately decide how to deal with the objects of Confederate America. One thing is dealing with the objects; the other is dealing with the documentation of history. Judging from all the movies and documentaries that explain the realities of the Holocaust, the same remainder is happening with Slavery and the treatment of African Americans in the U.S.

Just like George Floyd should not have died for using an alleged false \$20 bill, The U.S. should not have allowed for Slavery to exist; we must confront the reminders of Slavery and all it's consequences.



Do you love your Payment Protection Loan? Let's talk about the loan forgiveness process

by CPA Cesar Hernández-Monagas, Principal Birling Capital

What is PPP, and how does PPP work?

The U.S. Congress created the Paycheck Protection Program, PPP, as part of the \$2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation authorizes the Treasury to use the SBA's 7(a) program to fund loans up to \$10 million per applicant to cover payroll expenses, mortgage interest, rent, and utilities.

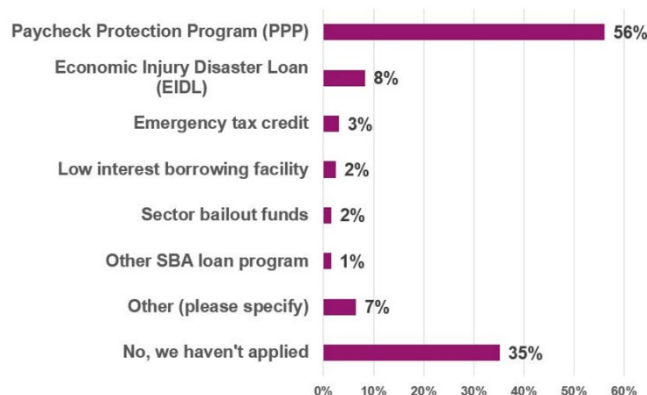
The loans are available to small businesses in operation on February 15, 2020, with 500 employees or less, including not-for-profit, self-employed individuals, sole proprietorships, and independent contractors. Companies that have more than 500 employees also qualify for the loan under certain restrictions.

The loans are designed to support organizations that are suffering the economic ravages created by the coronavirus pandemic and assisting them with employee salaries. PPP recipients might receive full loan forgiveness if the funds were used in the permitted expenses and meet the other requirements established by Congress.

The number of applications was so high that the \$349 billion allocated initially to the program depleted in a matter of days, and Congress was forced to allocate additional money. In the second round of the program, an additional \$310 billion was awarded, however many businesses thought it was not easy to apply. They found the program's rules confusing, and the forgiveness process was not transparent.

The following graph shows the results of an AICPA survey in which more than 1,000 companies participated. You will notice that the percentage of companies that did not apply to any assistance was high.

Following the reduction in applications in the second round of the program, Congress passed the Paycheck Protection Program Flexibility Act, to provide businesses with greater flexibility and more time to maximize loan forgiveness. The following are some of the most critical measures of the Flexibility Act:



1. Extends the period to apply for PPP loans from June 30, 2020, to December 31, 2020 (a latter interim rule moved back the period to June 30)
2. Extends the forgiveness period from 8 weeks to 24 weeks after the date of disbursement, but in no event ending later than December 31, 2020
3. Reduces the minimum percentage of payroll expenses from 75% of the loan to 60%
4. Extends this safe harbor period to December 31, 2020, before it was June 30, 2020
5. Extends the payment deferral from 6 months after the loan funding date to "the date on which the lender remits the amount of forgiveness determined under Section 1106 of the CARES Act".
6. Extends maturity date to 5 years on loans issued after the enactment of this law

By the time that the Flexibility Act was approved, many companies were approaching the end of the first 8 weeks to use the funds, and many had rushed to use the funds and did not necessarily use them most efficiently.

The forgiveness process

To get forgiveness, you'll need to complete a Forgiveness Application form and submit it to your lender. Last week, the SBA issued its most recent interim final rule which clarifies many of the doubts about the loan forgiveness process. The document reviewed many of the established guidelines, which conflicted with the Paycheck Protection Program Flexibility Act. One of the most critical clarifications for many borrowers was applying for early loan forgiveness.

The interim rule clarifies that any business can apply for loan forgiveness from the time all funds are used, even if the 24-week period is not over. The SBA clarified that by requesting early forgiveness, the borrower would be losing the use of a safe harbor, which would allow it to replace terminated employees before December 31 without penalty on the forgiveness amount.

The interim rule also clarifies that it is the borrower's responsibility to provide the calculation of the forgiveness amount and that it is the lender's responsibility to make a good-faith review of it within a reasonable period. Lenders are not required to verify the forgiveness calculation separately if the borrower provides the required documentation supporting the calculation and certifies that the disbursements went to eligible expenses.

Another important clarification is the reduction of the forgiveness amount based on the borrower's workforce changes. The interim rule issued states that "...for borrowers that reduced the hours of an employee and then offered to restore such hours, the borrower's loan forgiveness will not be reduced, and the borrower may exclude any reduction in full-time equivalent employee headcount that is attributable to an individual employee if: (a) the borrower made a good faith, written offer to restore the reduced hours of such employee; (b) the offer was for the same salary or wages and the same number of hours as earned by such employee in the last pay period before the reduction in hours; (c) the offer was rejected by such employee, and (d) the borrower has maintained records documenting the offer and its rejection."

Even with these clarifications, the loan forgiveness application is still very confusing for most borrowers. If your company received money from PPP and is unclear as to the amount to be forgiven, call us at (787) 247-2500, and we can gladly help you maximize the amount of forgiveness.

The Final Word: 108 days and counting under COVID-19

One Hundred and eight days is the journey each Puerto Rican has been on attempting to survive the COVID-19 lockdown order and its direct effects in all our lives.

One Hundred and eight have made us realize how little we truly need to live and have forced us to create new habits during our daily routines.

As Puerto Ricans continue to suffer from the disruption of the usual way of life due to the pandemic thousands of families barely have food and water on their tables, more than 359,000 are unemployed, we see a path of confluence in the destruction of the lives of those that have less, We see a deterioration of every citizen's way of life.

During the great depression of the 1930s, 65% of all Puerto Ricans were unemployed. It impacted the economy significantly then driven by the agricultural business principally sugar. As the declines on the prices of sugar occurred in the depression, the response of Congress was to implement the Jones act, which placed quotas on sugar production, Puerto Rico 86 years later continues to debate the Jones Act, with no end in sight.

We have said it before, and we repeat it, the safety net that the Government must provide to that less fortunate must be big enough to allow every Puerto Rican to thrive.

In conclusion, let me share this story: Do you know the difference between a Travel Agent and a Tour Guide?

Usually, a Travel Agent is a person that helps you plan a great trip; more often than not, he is sending you to places he has never been, and once you reach your destination, it is up to you to make the trip memorable.

However, a Tour Guide also helps you plan a great trip and goes with you on the trip taking you to places he has been hundreds of times; once there, he experiences every sight, every sound, every hotel, and makes sure you have a memorable trip by being there with you.

For the past 30 years, the principals of Birling Capital have been doing business one trusted relation at a time; please allow us to be your Tour Guides.

There is no better education than adversity.

We hope that you have enjoyed this issue of The Zenith Investor ©, and we very much welcome your comments, thoughts, and ideas; you may reach us at frc@birlingcapital.com or 787-247-2500.


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About Birling Capital

Birling Capital is a corporate advisory & consulting firm that offers broad corporate finance & advisory services. We focus on identifying and resolving organizational finance-related issues. We use a holistic approach to both assets and liabilities sides with integrated Business, family needs, and objectives. Over the past two decades, our firm's principals advised on more than hundreds of transactions in the corporate, healthcare, education, insurance, banking sectors.

You have problems... We provide long term solutions. Doing the right thing at the right time.

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