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Compliance Check

CARES Act – Small Business Loan Overview

In response to the American economy reeling from the coronavirus (COVID-19) pandemic, the federal government recently signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Among other provisions, the CARES Act provides businesses suffering under the debilitating effects of the pandemic with unprecedented access to emergency loans. This document will serve as an overview of the loan programs available.

How Does the CARES Act Address Small Business Loans?

The CARES Act is the largest economic stimulus measure in modern history and promises to provide help for struggling American families and businesses. Specifically, the Act includes the following provisions:

- The Act includes nearly $350 billion for a federal small business loan program called the Paycheck Protection Program. The program is designed to get cash in the hands of suffering small businesses quickly, with less stringent eligibility requirements than the existing U.S. Small Business Association (SBA) loan programs. Paycheck Protection Program loans are designed to incentivize business owners to keep employees on payroll.

- In addition to businesses already eligible for SBA programs, most businesses with 500 or fewer employees are now eligible for disaster loans of up to $2 million for working capital. Those businesses will also be eligible for an emergency cash advance of $10,000 within days of making the application, which is not repayable even if their loan application is denied.

Overview of CARES Act Small Business Loan Provisions

As noted above, the CARES Act provides two main avenues for obtaining a business loan:

1. Through the Paycheck Protection Program
2. Through the SBA as a disaster loan

Below you will find an overview of the eligibility requirements, key loan terms, and how to apply for each program. enforced.

Paycheck Protection Program Loans

The CARES Act allocated $350 billion to help small businesses keep workers employed amid the pandemic and economic downturn. Included in the CARES Act was the Paycheck Protection Program, which provides 100% federally guaranteed loans to small businesses, through Jun. 30, 2020. Importantly, these loans may be forgiven if borrowers maintain their payrolls during the crisis. Though information on the program continues to be rolled out, the following is an overview of information available now:

Eligibility

You are eligible for a loan under this program if you are:

- A small business that was in operation on Feb. 15, 2020, with fewer than 500 employees (The 500-employee threshold includes all employees: full-time, part-time and any other status.)
- A small business that otherwise meets the SBA’s size standard

- A 501(c)(3) with fewer than 500 employees
- An individual who operates as a sole proprietor
- An individual who operates as an independent contractor
- An individual who is self-employed and who regularly carries on any trade or business
- A tribal business concern that meets the SBA size standard
- A 501(c)(19) Veterans Organization that meets the SBA size standard

Terms of the Loan

The terms of a Paycheck Protection Program loan are as follows:

- The amount of a Paycheck Protection Program loan available to each borrower is 2.5 times the borrower's average monthly payroll costs, not to exceed $10 million.
- Paycheck Protection Program loans require no collateral, have a maximum 10-year term, and an interest rate of no more than 4%.
- The loans are available to eligible companies to be used for the following costs incurred from Feb. 15, 2020 through Jun. 30, 2020: payroll (including salary, wage, parental, family, medical or sick leave, and more); health care benefits and related insurance premiums; employee compensation; mortgage interest obligations; and rent and utilities.
- A borrower of a Paycheck Protection Program loan is eligible for loan forgiveness equal to the amount spent during the eight-week period after the date of the original loan for rent on a leasing agreement, payroll costs (including wages for USA employees capped at $100,000 per employee), mortgage interest and utilities. The amount forgiven may be reduced if the borrower reduces the number of employees, or salaries and wages of employees. Borrowers must apply through their lender for forgiveness on the loan.

How to Apply for a Paycheck Protection Program Loan

The application has been posted on the Treasury Department's CARES Act resource page. The SBA has a network of 1,800 approved lenders that process small business loans. If you are interested in a Paycheck Protection Program loan, you should first contact your bank to see if it is an SBA-approved lender. If your bank is not an SBA-approved lender, you can contact the SBA to find one.

SBA Economic Injury Disaster Loans

Another option for small businesses is the SBA's existing Economic Injury Disaster Loan (EIDL) Program, which was expanded by the CARES Act and provides for longer-term loans with favorable borrowing terms. Companies in all 50 states, District of Columbia, and some U.S. territories are typically eligible for EDIL loans relating to economic injury caused by the COVID-19 pandemic and will be available until Dec. 31, 2020.

Eligibility

The CARES Act expanded EIDL loan eligibility for the period between Jan. 31, 2020, and Dec.

31, 2020, to include:

- Businesses with 500 or fewer employees
- Sole proprietorships and independent contractors with or without employees
- Private nonprofits and cooperatives
- Tribal small business concerns and ESOPs with 500 or fewer employees

If your business meets the aforementioned requirements and your revenues have suffered substantial economic injury from COVID-19, your business is eligible no matter your line of business.

Terms of the Loan

- The terms of an EIDL loan are outlined below:
- The amount of an EIDL loan available to each borrower is the business's actual economic injury as determined by the SBA, not to exceed $2 million.
- EIDL loans under the CARES Act do not require personal guarantees for loans up to $200,000, but the SBA will take a collateral interest in your business's assets to the extent available.
- The interest rate on EIDL loans is 3.75% fixed for small businesses and 2.75% for nonprofits. EIDL loans have up to a 30-year term. Specific terms will be determined on a case-by-case basis, based upon each borrower's ability to repay the loan.
- EIDL loans may be used for payroll, debts and to pay obligations that cannot be met due to the pandemic.
- Your business may be approved for an EIDL loan based on credit score alone, without being required to submit tax returns.

The CARES Act also permits applicants to request an advance of up to $10,000 which may be used to keep employees on payroll, to pay for sick leave, meet increased production costs, or pay business obligations. If you apply, the advance should be paid to your business within three days. This advance, available backdated from Jan.31, 2020 to Dec. 31, 2020, is not required to be repaid even if your application is denied. To access this advance, borrowers must first apply for an EIDL and then request the advance.

How to Apply for an SBA Economic Injury Disaster Loan

EIDL loans are available directly from the SBA. They have introduced a streamlined application process, which you can access here. Additionally, SBA resource partners are available to help guide you through the EIDL application process. You can find the nearest Small Business Development Center (SBDC), Women's Business Center, or SCORE mentorship chapter here.

What's Next?

It is clear that both Paycheck Protection Program loans and SBA EIDL loans provide very favorable terms to prospective borrowers. Eligible small businesses who have been economically impacted by the COVID-19 pandemic would be wise to consider taking advantage of such programs.

Businesses interested in the Paycheck Protection Program loans should consult with their banker(s). In the meantime, those also interested in the EIDL loans should evaluate with its advisors whether they are eligible. If so, businesses can consider gathering all relevant company documents and financial information that borrowers would ordinarily expect a lender to want to review (e.g., payroll information).