

Paycheck Protection Program

General Loan Information

- Operates under section 7(a) of the Small Business Act
 - o The SBA's 7(a) program is the agency's flagship loan offering – it is a partnership between private financial lenders, which issue the loans, and the SBA, which guarantees them
- Measures in the COVID-19 legislation temporarily raise the maximum amount of a 7(a) loans to \$10 million from \$5 million and instruct lenders to determine how much to lend based on a formula that takes into account a business' past payroll expenses:
 - o Average monthly payroll costs during the prior year x 2.5; or
 - o \$10 million
- A typical 7(a) requirement that certain borrowers provide collateral will be waived during the covered period
- Approximately 1,800 banks, credit unions and other financial institutions are part of an existing network of lenders which the SBA has approved to issue loans through the 7(a) programs
- The bill also sets the maximum interest rate for these loans at 4% and allows borrowers to defer payments for six months to a year
- The loan period for this program would begin on February 15, 2020 and end on December 31, 2020
- The loan term is up to 10 years

Eligibility Requirements

- Eligible entities include small businesses, nonprofits and veterans organizations with 500 or fewer employees. It also:
 - o Excludes nonprofit organizations that receive Medicaid reimbursements from eligibility
 - o Includes sole proprietors, independent contractors and other self-employed individuals as eligible
 - o Provides eligibility for businesses in certain industries with more than one physical location and with no more than 500 employees per physical location
 - o Waives affiliation rules for businesses in the hospitality and restaurant industries, franchises that are approved on the SBA's Franchise Directory, and small businesses that receive financing through the Small Business Investment Company program
- Other eligibility requirements that lenders will need to determine are:
 - o Whether a business was operational on February 15, 2020
 - o Whether the business had employees for whom it paid salaries and payroll taxes, or paid independent contractors

Application Process

- The SBA guarantees the loans, so borrowers will need to apply through banks, credit unions and other lenders
 - o The best way to begin is to approach your lender and inquire about applying for a 7(a) small business loan
- The SBA will give their loan guidelines to the banks and the banks will prepare their loan application process – this is expected to take at least two weeks
- The deadline to apply is June 30, 2020

Money Dispersal

- Secretary Mnuchin said he expects to have a simple process where requests can be made, and money can be disbursed in the same day by the beginning of April
 - o Mnuchin is authorized to expedite the addition of new lenders to speed up the delivery of capital to small employers

Loan Forgiveness

- For businesses that retain their workers or rehire ones that were laid off, there is a loan forgiveness component
 - o Those businesses would be eligible for forgiveness on portions of their loans used for certain costs—including payroll, rent payment, mortgage obligations and utilities—that are incurred during an 8-week period starting on the loan’s origination date
 - o The amount of forgiveness will take into account the number of workers retained or rehired – you must maintain the same number of employees on average for the first eight-week period beginning on the origination date of the loan as you did from 2/15/19-6/30/29 or from 1/1/20-2/15/20

SBA Emergency Injury Disaster Loan (EIDL)

General Loan Information

- *Note: some funds for this were initially appropriated in the “Coronavirus Preparedness and Response Supplemental Appropriations Act”
- Under the CARES Act, small businesses in all 50 states and D.C. are eligible to apply for a separate SBA program that provides disaster loans
 - o These are low-interest loans issued directly from the agency
- This option may make sense for businesses that need a smaller amount of loan money, since the program’s maximum loan amount is \$2 million
 - o Ideal applicants for this option have less than \$65k in annual operating costs – the advance may be greater than the loan forgiveness
- The bill allows businesses that apply for an EIDL expedited-access to capital through an Emergency Grant – an advance of \$10,000 within three days to maintain payroll, provide paid sick leave, and to service other debt obligations
 - o The expedited access makes this grant more appealing to businesses which need immediate cash
- The administration has approved a one-year deferment on the payments, so business owners have a full year before repayments begin
 - o The interest rate is 3.75% for small businesses and 2.75% for private non-profits
Repayment term will be determined on a case-by-case basis and can be up to a maximum of 30 years

Eligibility Requirements

- Small businesses with fewer than 500 employees and \$35 million in revenue typically qualify

- Applicants for SBA loan programs are typically told to include their affiliates when applying size tests to determine eligibility – this means that employees of other businesses under common control (ex: a VC firm’s other investments) would count towards the maximum number of employees
 - *Note: the affiliates provision has been met with protest among the business community and may be subject to change
- To qualify for this emergency loan, you have to show “substantial economic injury,” which means you’re unable to meet obligations or pay your regular expenses
- The CARES Act now allows EIDLs to be approved by the SBA based only off of the applicant’s credit score

Application Process

- EIDLs smaller than \$200,000 can be approved without a personal guarantee
- The application process is live, and loans are available now – there is no obligation to accept the loan if you qualify and the SBA typically allows 60 days to accept a loan offer

Money Dispersal

- The \$10,000 expedited grant will be administered within 3 days of submitting an application
- Even though you’re applying through the SBA, the lender here is the government – not a bank – so it will likely take longer to approve than a traditional loan
 - However, President Trump has pledged the most aggressive action in history to help small businesses, and the SBA says it’s making an effort to quickly cut through red tape and some applications are already starting to be approved.
- Loans are offered based on a first come, first serve basis – some say wait time could likely be around 3 weeks Loan Forgiveness
- There is no loan forgiveness option under EIDL

Main Street Business Lending Program General Loan Information

- *Note: some specifics of the program are not yet published – Fed officials say the details of the program are still being decided
- A Federal Reserve lending program that targets U.S.-eligible businesses (and, to the extent practicable, nonprofit organizations) with between 500 and 10,000 employees
- The program’s funds will come from the Treasury Department, which will direct up to \$454 billion of capital to the Fed in the expectation that it will leverage those funds and extend \$4 trillion of credit to businesses, states, and municipalities
 - The Treasury will buy all the securities and backstopping of loans while the Fed acts as banker and provides financing
- Mandates a 2% direct loan for retention of business’ workforce
- Loan payments will be suspended for the first 6 months

Eligibility Requirements

Borrowers would have to certify that they:

- Would use the loan to retain at least 90% of their workforce until Sept. 30, 2020

- Intend to restore at least 90% of their workforce as of Feb. 1, 2020, within four months of the end of the coronavirus public health emergency
- Are U.S.-based
- Won't pay dividends or repurchase equities
- Won't outsource jobs or relocate them outside the country, or abrogate existing collective bargaining agreements for the term of the loan and two subsequent years
- Would remain neutral on any union organizing efforts during the loan term

Application Process

- Details have not been published yet regarding application specifics

Money Dispersal

- Participating U.S. Banks would receive the loans from the Treasury and the Federal Reserve and would service new loans to their mid-size and small corporate customers who have applied
 - o Unsecured loans to mid-sized corporate and small business customers would likely be made at a 2.5% rate
- While many details are still up in the air, some officials have guessed that the Fed would start channeling funds into the banking system around 4/10

Additional Relief:

Small Business Debt Relief

- The CARES Act allocates \$17 billion to the SBA to cover six months of payments for small businesses with existing SBA loans that were negatively affected by COVID-19
- Existing loans include:
 - o 7(a) Program
 - o Community Advantage Program
 - o 504 Program
 - o Microloan Program

Small Business Administration Express Loans

- The CARES Act provides borrowers with revolving lines of credit for working capital
 - o Increases the size of SBA Express loans for small businesses under the 7(a) program from \$350,000 to \$1 million for the remainder of 2020

Entrepreneurial Assistance

- The CARES Act allocates \$265 million for grants to SBA resource partners, including Small Business Development Centers and Women's Business Centers, to offer counseling, training, and related assistance to small businesses affected by COVID-19

- \$10 million would be provided for the Minority Business Development Agency to provide these services through Minority Business Centers and Minority Chambers of Commerce