



## A Deep Dive into the CARES Act

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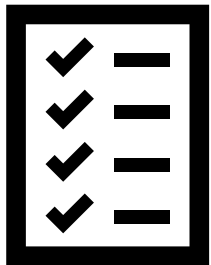
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# About us

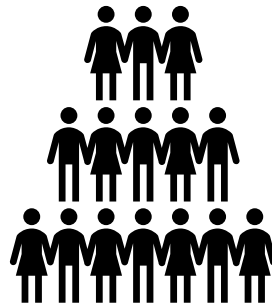


Celebrating 30 years of lending, Colorado Lending Source cares about small business, creating long-term alliances with our lending partners and borrowers, being a resource to empower entrepreneurs, and making Colorado the best state in the nation to start and grow a business. We partner with local lenders, government agencies, and other small business resource to make access to capital more attainable. As a mission-based lender and small business-financing expert, we are committed to fostering the economic growth of diverse small businesses within our communities. Since 1990, we've funded over **3,800 loans** helping to create nearly **29,000 jobs** injecting **over \$4.7 billion into the economy**.

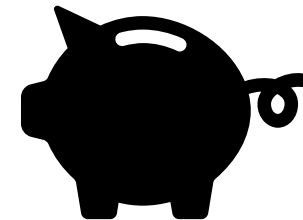
## 2019 IMPACT...



**225**  
**Loans Approved**



**1,405**  
**Jobs Created**



**\$330.1 Million**  
**Economic Impact**

A woman in a dark sleeveless dress is smiling and pointing upwards with her right hand towards a whiteboard. She is in a meeting room with other people, including a man with glasses in the foreground. The image has a warm, orange-toned filter.

**OUR MISSION IS TO FOSTER THE ECONOMIC  
GROWTH OF DIVERSE SMALL BUSINESSES  
WITHIN OUR COMMUNITIES.**



## Section 1102: Paycheck Protection Loans

Paycheck Protection (PP) loans are available to small businesses, self-employed individuals, “gig economy” individuals, 501C3 nonprofit entities, 501C19 veteran organizations, and tribal businesses during the “covered period” of the Covid-19 crisis.

The covered period for these loans is defined in the Act as beginning on February 15, 2020 and ending on June 30, 2020.



## Section 1102: Paycheck Protection Loans

Starting April 3, 2020, small businesses and sole proprietorships can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.

Starting April 10, 2020, independent contractors and self-employed individuals can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.



# Section 1102: Paycheck Protection Loans

The maximum loan available is capped at 2.5 times the employer's average monthly "payroll costs" during 2019 (there are special exceptions for seasonal employers) OR \$10 million, whichever is less.

The interest rate is 0.50%

The loan term is 2 years / 24 months

No payments for the first 6 months

## NON-SEASONAL EMPLOYERS:

Maximum loan =  
**2.5 X Average total monthly payroll costs incurred during the year prior to the loan date**

*For businesses not operational in 2019:*

**2.5 X Average total monthly payroll costs incurred for January and February 2020**

## SEASONAL EMPLOYERS:

Maximum loan =  
**2.5 X Average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019**



# Section 1102: Paycheck Protection Loans

For the purpose of calculating a borrower's maximum loan amount under the PP program, the term "payroll costs" is defined in the Act as follows:

For an **employer**, it is the sum of payments of any compensation with respect to employees that includes:

- salary, wage, commission, or similar compensation;
- payment of cash tips or equivalent;
- payment for vacation, parental, family, medical, or sick leave;
- allowance for dismissal or separation;
- payment required for the provisions of group health care benefits, including insurance premiums;
- payment of any retirement benefit; or
- payment of State or local tax assessed on the compensation of employees.



# Section 1102: Paycheck Protection Loans

For a **sole proprietor** or **independent contractor**, it is the sum of payments of any compensation with respect to employees that includes wage, commission, income, net earnings from self-employment, or similar compensation that is in an amount not more than \$100,000 in 1 year, as prorated for the covered period.

For ALL employers, sole proprietors and independent contractors, “payroll costs” DO NOT include:

- the compensation of an individual employee with an annual salary in excess of \$100,000, as prorated for the covered period;
- taxes imposed or withheld under chapters 21 (Federal Insurance Contributions Act), 22 (Railroad Retirement Tax Act), or 24 (Collection of Income Tax at Source of Wages) of the Internal Revenue Code of 1986 during the covered period;
- any compensation of an employee whose principal place of residence is outside of the United States.



# Section 1102: Paycheck Protection Loans



Although the program is referred to as the Paycheck Protection program, loan proceeds may assist a business with any of the following types of expenses:

- payroll costs;
- costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
- employee salaries, commissions, cash tips, retirement contributions, or similar compensations;
- payments of interest on any mortgage obligation (except for any prepayment of or payment of principal on a mortgage obligation);
- rent (including rent under a lease agreement);
- utilities; and
- interest on any other debt obligations that were incurred before the covered period.

# Section 1102: Paycheck Protection Loans



From the lender's perspective, in addition to understanding an applicant's average monthly payroll cost number, they must make sure that the borrower:

- was in operation on February 15, 2020; and
- had employees for whom the borrower paid salaries and payroll taxes; or paid independent contractors, as reported on a Form 1099–MISC.

From the borrower's perspective, in addition to documenting their average monthly payroll cost number, they will be asked to make good faith certifications:

- that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient;
- acknowledging that funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments;
- that the eligible recipient does not have a duplicate application pending for the same purposes; and
- during the period beginning on February 15, 2020 and ending on December 31, 2020, that the eligible recipient has not received amounts for the same purpose under any other loan.



## Section 1106: Loan Forgiveness

This section allows for Paycheck Protection loans to be eligible to be **forgiven** in whole or part in an amount equal to the sum of certain costs incurred and payments made during the 8-week period beginning on the date of the origination of a PP loan.

The amount of loan forgiveness can't exceed the amount borrowed, obviously, but the amount of forgiveness **will be reduced** if there is a reduction in the number of employees OR a reduction of greater than 25% in wages paid to employees.



# Section 1106: Loan Forgiveness

The following costs and payments made during the 8-week period beginning on the date of the origination of a PP loan may be forgiven:

- Payroll costs.
- Any payment of interest on any covered mortgage obligation, which the Act defines as any indebtedness or debt instrument incurred in the ordinary course of business that is (a) a liability of the borrower; (b) a mortgage on real or personal property; and (c) was incurred before February 15, 2020;
- Any payment on any covered rent obligation, which the Act defines as any rent obligated under a leasing agreement in force before February 15, 2020;
- Any covered utility payment, which the Act defines as any payment for electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.

# Section 1106: Loan Forgiveness



Average Monthly Payroll Cost number used to apply for the PP loan

Multiplied by

Average Number of Full Time Equivalent Employees per month for the 8-week period beginning on the date of the origination of the PP loan

Divided by

Average Number of Full Time Equivalent Employees per month from **February 15, 2019 to June 30, 2019 (OR January 1, 2020 to February 15, 2020)**

*Using this option as an example, if your average monthly payroll cost number was \$50,000 and you have ten full time equivalent (FTE) employees per month on average during the 8 weeks after you get your PP loan, and you had an average of 12 FTEs per month last year between 02/15/19 and 06/30/19, the math would be:  $(50,000 \times 10) / 12 = 41,666 = 83.33\%$  of 50,000, which means that 83.33% of the amount you spent on payroll costs, interest on any covered mortgage obligation, covered rent obligation and covered utility payments during the 8-week period beginning on the date of the origination of your PP loan, would be forgiven. Your loan balance would be reduced accordingly, and you would continue to pay the balance of the loan over the term negotiated when the loan was put in place.*

## Section 1106: Loan Forgiveness



The Act specifically states that there will be **NO reduction in forgiveness** related to reductions in employment and wages that occurred during the period 02/15/20 and 04/26/20 **IF** by June 30, 2020, the borrower has eliminated the reductions in employment and wages, and everything is back to the way it was on February 14, 2020.

# Section 1106: Loan Forgiveness



To apply for forgiveness, you will need:

- documentation verifying the number of full-time equivalent employees on payroll and pay rates, including:
  - payroll tax filings reported to the Internal Revenue Service; and
  - State income, payroll, and unemployment insurance filings;
- documentation, including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments;
- certifications that (1) documentation presented is true and correct, and (2) the amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, make payments on a covered rent obligation, or make covered utility payments; and
- any other documents the SBA might add to this list.



## Section 1112: Subsidy for Certain Loan Payments

Under the CARES Act, SBA 504, SBA 7(a), SBA Community Advantage, and SBA microloan borrowers are relieved of any obligation to pay the principal, interest and any associated fees that are owed for a 6-month period beginning with the first payment due on a loan after March 27, 2020.

SBA will pay this first loan payment to the Lenders within 30 days of the first loan payment due date after March 27, 2020. If a Lender receives a loan payment from a Borrower after March 27, 2020, **the Lender must inform the Borrower that it has the option of the Lender either returning the loan payment to the Borrower or applying the loan payment to further reduce the loan balance after application of SBA's payment.**





# Section 1110: Emergency EIDL Grants

Anyone applying for an EIDL (Disaster Loan) is eligible to receive \$10,000 within three days of applying for an EIDL loan. An advance provided under this subsection may be used to address any allowable purpose for a loan, including:

- (A) providing paid sick leave to employees unable to work due to COVID–19;
- (B) maintaining payroll to retain employees during business disruptions or substantial slowdowns;
- (C) meeting increased costs to obtain materials unavailable from the applicant’s original source due to interrupted supply chains;
- (D) making rent or mortgage payments; and
- (E) repaying obligations that cannot be met due to revenue losses.

You are NOT required to repay the \$10,000, even if subsequently denied for an EIDL.



# EIDL Loans

EIDL loans may be used to pay fixed debts, payroll, accounts payable and other costs; however, they are not intended to replace lost sales or profits and cannot be used for certain purposes. These include to refinance debt, make payments on loans owed to another federal agency, to pay tax penalty obligations, repair physical damages or to pay dividends to stockholders.

The SBA issues the EIDL loans directly at a low interest (3.75% for small businesses) for up to \$2 million and a maturity of up to 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay the loans.



## EIDL Loans and the CARES Act

A borrower that receives a Paycheck Protection Program loan for employee salaries, payroll support, mortgage payments and/or other debt obligations would NOT be able to receive an EIDL for the same purpose or co-mingle funds from another loan for the same purpose. However, the Paycheck Protection loan may be used to repay an EIDL loan.

The CARES Act waives the requirement for personal guarantees on EIDL loan amounts less than \$200,000, and the borrower is not required to have been in business for at least one year. The requirement that borrowers are unable to obtain credit from other sources is also waived on EIDL loans.

# WATCH OUT for Scams and Fraud Schemes



## Grants

- SBA **does not** initiate contact on either 7a or Disaster loans or grants. If you are proactively contacted by someone claiming to be from the SBA, suspect fraud.

## Loans

- If you are contacted by someone promising to get approval of an SBA loan but requires any payment up front or offers a high interest bridge loan in the interim, suspect fraud.
- SBA limits the fees a broker can charge a borrower to 3% for loans \$50,000 or less and 2% for loans \$50,000 to \$1,000,000 with an additional ¼% on amounts over \$1,000,000. Any attempt to charge more than these fees is inappropriate.
- If you have a question about getting a SBA disaster loan, call 800-659-2955 or send an email to [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov).

## Phishing

- If you are in the process of applying for an SBA loan and receive email correspondence asking for personally identifiable information (PII), ensure that the referenced application number is consistent with the actual application number. Look out for phishing attacks/scams utilizing the SBA logo. These may be attempts to obtain your personally identifiable information, to obtain personal banking access, or to install ransomware/malware on your computer.

Q&A





**THANK YOU!**

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