



# CARES Act: Small Business Administration (SBA) Loans & Grants

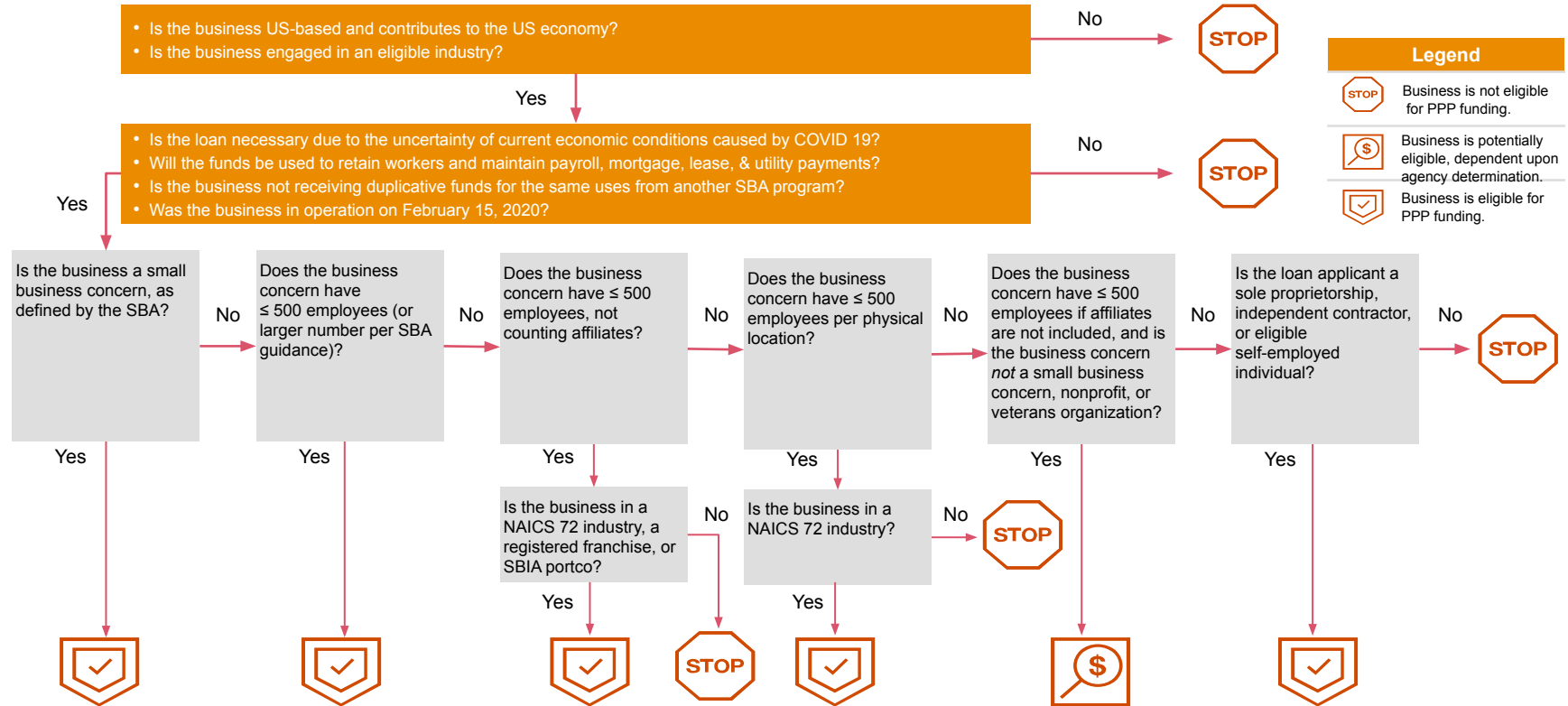
Updated April 1, 2020

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# CARES Act

## Small business loan eligibility



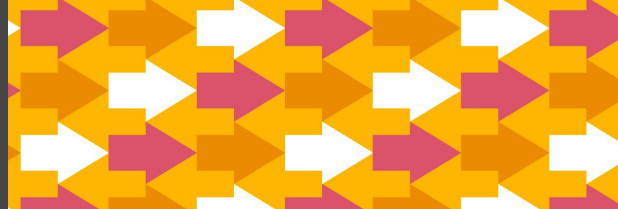
# Economic stabilization measures - Small Business Administration Loans & Grants (SBA) Overview

- Loans of up to \$10 million for eligible businesses, nonprofits, and veterans organizations with not more than 500 employees
- Special 'per location' rule for accommodation and food services businesses with fewer than 500 employees per physical location
- Per the terms of the **Paycheck Protection Program (PPP)**, more thoroughly discussed in later slides, certain amounts of the loan may be forgiven, depending on how the loan money is used:
  - Borrowers will owe money if they use loan amounts for anything other than payroll costs, mortgage interest, rent, and utilities payments over the 8 weeks after getting the loan. Money owed on the loan is due in 2 years.
    - Due to likely high subscription, at least **75% of the forgiven amount** must have been used for **payroll**.
    - Payroll costs include employee salaries (up to an annual rate of pay of \$100,000), hourly wages and cash tips, paid sick or medical leave, and group health insurance premiums
  - Borrowers will need to complete the Paycheck Protection Program loan application and submit the application with the required documentation to an approved lender available to process the application by June 30, 2020.
  - 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.

# CARES Act

## Paycheck Protection Program

# \$349 Billion



### Non-Eligibility



- Businesses will not be eligible to obtain loans or investments under the CARES Act if 20% or more (by vote or value) of the stock is owned by members of Congress, the Trump administration, or their immediate family members or spouses.
- A business is not eligible to receive these loans if it receives an economic injury disaster loan for the same purpose.

### Supervision



- Subject to supervision, audits and investigation by a special inspector general who will keep Congress informed through quarterly reports.
- A congressional oversight committee also will be formed to monitor implementation of such financings under the legislation and to report to Congress on a monthly basis.

### Eligibility



- Must be in operation on February 15, 2020, and have paid employee salaries and payroll taxes
- 500 employees or less
- Program is really focused on hospitality, retail and other small businesses. Applicability to asset management sector under the program is difficult to assess at this early stage.
- We expect the SBA to issue guidance that will help clarify eligibility.

### Rules



- Loan to cover payroll; health care costs; mortgage interest payments, rent and utility payments; and interest on pre-existing debt obligations
- Due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll.
- Cap of \$100,000 on the amount of an individual employee's compensation
- Permits borrowers to refinance economic injury disaster loans issued between Jan 31, 2020 and loan origination date.

### Forgiveness



- Partially forgivable
- Borrowers will owe money if they use loan amounts for anything other than payroll costs, mortgage interest, rent, and utilities payments over the 8 weeks after getting the loan.
- Amount forgiven is lowered by if reductions in full-time employment, total salaries and wages fall by more than 25% from the applicable prior period. Can be mitigated by rehiring employees.

### Terms and Amount



- Amount of loan: Loans can be for up to two months of a borrower's average monthly payroll costs from the last year plus an additional 25% of that amount, subject to a \$10 million cap.
- Interest rate: 0.5% fixed rate
- Can avail loan through June 30, 2020
- Loan fees are waived
- "SBA credit elsewhere" test is waived. Waives the requirement that businesses show they can't obtain credit elsewhere.
- Unforgiven amount will have a maximum maturity date of 2 years from the date the borrower applied for loan forgiveness.
- Any payments deferred 6 months.
- No prepayment penalties

### Guarantee



- No collateral or personal guarantees needed
- Loans guaranteed by Federal Govt (SBA)
- Amounts not forgiven continue to be guaranteed

### Others



- Amounts of cancelled indebtedness under this program will **not be included in the borrower's taxable income** for Federal taxes
- Loan eligible to be sold in the secondary market
- Applications will be accepted starting April 3, 2020.
- Link to SBA approved lenders - <https://www.sba.gov/funding-programs/loans/paycheck-protection-program-ppp>

### CARES Act Link:

<https://www.congress.gov/bill/116th-congress/house-bill/748/text>

# Economic stabilization measures - Paycheck Protection Program

- **Loan amount:** Entities may apply for a 100% government backed, low interest SBA 7(a) loan up to \$10 million.
  - Loans can be for up to two months of a borrower's average monthly payroll costs from the last year plus an additional 25% of that amount, subject to a \$10 million cap.
  - If a business is a seasonal or new business, it will use different applicable time periods for its calculation.
- **Covered period:** covered loan period will begin on February 15, 2020, and end on June 30, 2020. The 100% government backed loans and fee waivers will be authorized through December 31, 2020.
- **Interest rate:** 0.50% fixed rate.
- **Payment term:** maximum term is 2 years.
- **Waivers:**
  - Waives both borrower and lender fees for participation in the Paycheck Protection Program.
  - Waives the credit elsewhere test for funds provided under this program.
  - Waives collateral and personal guarantee requirements under this program.
  - Ensures borrowers are not charged any prepayment fees

# Economic stabilization measures - Paycheck Protection Program

- **Eligibility:**

- Entity was in business on February 15, 2020.
- Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a NAICS code beginning with 72 (hospitality and food services), for which the affiliation rules are waived.
- Affiliation rules are also waived for any business concern operating as a franchise that is assigned a franchise identifier code by the Administration, and company that receives funding through a Small Business Investment Company.
- Guidance needed on how SBA may apply affiliation rules to certain other businesses.

- **Non-eligible entities:**

- Entities with 20% or more (by vote or value) of their stock owned by members of Congress, the Trump administration, or their immediate family members or spouses.
- Entities that receive an economic injury disaster loan for the same purpose.

# Economic stabilization measures - Paycheck Protection Program

- **Loan Purpose:** loan can be used to cover payroll costs, including benefits; interest on mortgage obligations, incurred before February 15, 2020; rent, under lease agreements in force before February 15, 2020; and utilities, for which service began before February 15, 2020.
- **Payment deferrals:** Allows complete deferment of 7(a) loan payments for at least six months and not more than a year.
- **Guarantee amounts:** government will guarantee 7(a) loans for up to 100 percent through December 31, 2020, at which point guarantee percentages will return to 75 percent for loans exceeding \$150,000 and 85 percent for loans equal to or less than \$150,000.
- **Requirement to apply:** eligible borrowers will make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; they will use the funds to retain workers and maintain payroll, lease, and utility payments; and are not receiving duplicative funds for the same uses from another SBA program.
- **Express Loans:** maximum loan for a SBA Express loan will be \$1 million through December 31, 2020, after which point the Express loan will have a maximum of \$350,000.



# Economic stabilization measures - Paycheck Protection Program

- **Loan forgiveness:**

- Forgiveness on a covered loan is equal to the sum of the payroll payments, interest payments on mortgage obligations, rent payments and utility payments made during the **eight-week period following loan origination** as long as the amount does not exceed the original principal.
- Amount forgiven is lowered by if reductions in full-time employment, total salaries and wages fall by more than 25% from the applicable prior period. Can be mitigated by rehiring employees.

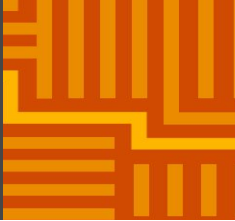
- **Limitations:**

- Borrowers may apply for PPP loans and other SBA financial assistance, including Economic Injury Disaster Loans (EIDLs), 7(a) loans, 504 loans, and microloans, and also receive investment capital from Small Business Investment Corporations (SBICs). However, borrowers cannot use a PPP loan for the same purpose as their other SBA loan(s).
  - For example, entities that use PPP to cover payroll for the eight-week covered period cannot use a different SBA loan product for payroll for those same costs in that period, although entities could use it for payroll not during that period or for different workers.

# Economic stabilization measures - Paycheck Protection Program

- **How to apply:**
  - All current SBA 7(a) lenders are eligible lenders for PPP.
  - The Treasury Department will also be in charge of authorizing new lenders, including non-bank lenders, to help meet the needs of small business owners.

# Economic stabilization measures - Paycheck Protection Program



- **Additional Paycheck Protection Program resources**
  - For a top-line overview of the program [CLICK HERE](#)
  - If you're a lender, more information can be found [HERE](#)
  - If you're a borrower, more information can be found [HERE](#)
  - The application for borrowers can be found [HERE](#)
  - Link to SBA approved lenders can be found [HERE](#)
  - Visit [SBA.gov/Coronavirus](https://www.sba.gov/Coronavirus) for more information

# Economic stabilization measures - Economic Injury Disaster Loan (EIDL)

**SBA is offering designated states and territories low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury as a result of COVID-19.**

- **Loan amount:** SBA's EIDLs offer up to \$2 million in assistance to help overcome the temporary loss of revenue businesses are experiencing.
- **Interest rates:** The interest rate is 3.75% for small businesses. The interest rate for non-profits is 2.75%.
- **Covered period:** Expanded eligibility criteria and the emergency grants are only available between January 31, 2020 and December 31, 2020.
- **Payment terms:** SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay.

# Economic stabilization measures - Economic Injury Disaster Loan (EIDL)

- **Eligibility:** In addition to the entities that are already eligible for SBA disaster loans (e.g. small businesses, private non-profits, and small agriculture cooperatives), eligibility is temporarily expanded to include:
  - Business entities with 500 or fewer employees
  - Sole proprietorships, with or without employees
  - Independent contractors
  - Cooperatives and employee owned businesses
  - Tribal small businesses
  - Private non-profits of any size.
  - Additionally, the entity must have been in business as of January 31, 2020.
- **Approvals:** The SBA can approve and offer EIDL loans based solely on an applicant's credit score, or use an appropriate alternative method for determining applicant's ability to repay.
- **Loan purpose:** 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.

# Economic stabilization measures - Economic Injury Disaster Loan (EIDL)

- **Collateral/Guarantees:** No collateral or personal guarantees are required for most loans under \$200,000.
- **EIDL Emergency Grants (i.e. Advance Payments):** Eligible entities that applied for an EIDL loan due to COVID-19 can request an advance on that loan, of not more than \$10,000, which the SBA must distribute within 3 days.
  - The advance does not need to be repaid under any circumstance (even if application is denied), and may be used to keep employees on payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rent, and mortgage payments.
  - In advance of disbursing the advance payment, the SBA must verify that the entity is an eligible applicant for an EIDL loan. This approval shall take the form of a certification under penalty of perjury.
- **Combined Loans:** If the entity applies for an EIDL and the grant, it can still apply for a Paycheck Protection loan. However the amount forgiven under a Paycheck Protection loan will be decreased by the \$10,000 grant.

# Economic stabilization measures - Economic Injury Disaster Loan (EIDL)

## How to Apply:

- Entities can apply for an EIDL [online](#) with the SBA.
- For questions, please contact the SBA disaster assistance customer service center at 1-800-659-2955 (TTY: 1-800- 877-8339) or e-mail [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov).
- Entities can visit an SBA resource partner who can help guide the entity through the loan application process. Entities can find your nearest Small Business Development Center (SBDC) or Women's Business Center [here](#).

# Economic stabilization measures - Entrepreneurial development

- The SBA will be able to provide additional financial awards to resource partners (Small Business Development Centers and Women's Business Centers) to provide counseling, training, and education on SBA resources and business resiliency to small business owners affected by COVID-19.
- The SBA will provide an association or associations representing resource partners with grants to establish:
  - One online platform that consolidates resources and information available across multiple Federal agencies for small business concerns related to COVID-19; and
  - A training program to educate Small Business Development Center, Women's Business Center, Service Corps of Retired Executives, and Veterans Business Outreach Center counselors on the various federal resources available to ensure counselors are directing small businesses appropriately.



# Economic stabilization measures - State Trade Expansion Program

- Provide grant funds to support the State Trade Expansion Program (STEP) in FY 2018 and FY 2019 to remain available for use through FY 2021.
- State STEP participants can be reimbursed for events cancelled due to COVID-19, so long as the reimbursement does not exceed their federal grant.

# Economic stabilization measures - Minority Business Development Agency

- Authorizes \$10 million to provide grants to Minority Business Centers and Minority Chambers of Commerce for the purpose of providing counseling, training, and education on federal resources and business response to COVID-19 for small businesses.
- Eliminates the program's non-federal-match requirement for a period of three months and allows for centers to waive fee-for-service requirements through September 2021.

# Contact

For more information, please contact **Carl Holshouser** (Director - Advisory), at [carl.holshouser@pwc.com](mailto:carl.holshouser@pwc.com)