



CORONAVIRUS EMERGENCY LOANS

SMALL BUSINESS GUIDE

CARES Act Overview

Congress has passed a \$2 trillion The Coronavirus Aid, Relief, and Economic Security, or "CARES Act," which is a coronavirus relief/economic stimulus bill. Legislation includes the following provisions impacting SBA lenders:

- \$17 Billion for SBA payment of borrower principal, interest, and fees for a 6-month period beginning with the next payment due, for 7(a) including Community Advantage, 504, and Microloan borrowers. This is not a deferment but is actual debt forgiveness for the borrower. These SBA payments will be enacted by SBA automatically. There is a provision that states if a borrower is already on deferment, the CARES Act debt forgiveness payments will activate at the end of the deferment period. Loans made today, and within the next 6 months, will also have their principal, interest, and fees paid by SBA for 6 months starting with the first payment.
- Permanent suspension of the interim final rule on the Express Loan Program and Affiliation Standards, thereby suspending the personal resources test.
- \$349 Billion for the Payroll Protection Program, a special 100% guaranteed 7(a) program that includes a debt forgiveness provision. This program ends June 30, 2020.
- Increase in maximum loan size for the 7(a) Express Loan Program from \$350,000 to \$1,000,000 effective until 12/31/2020.

Here are the questions you may be asking—and what you need to know.

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AM I ELIGIBLE?

You are eligible if you are:

- A small business with fewer than 500 employees
- 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 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

In addition, some special rules may make you eligible:

- If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- If you are operating as a franchise or receive financial assistance from an approved Small Business Investment Company the normal affiliation rules do not apply

REMEMBER: The 500-employee threshold includes all employees: full-time, part-time, and any other status.

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WHAT WILL LENDERS BE LOOKING FOR?

In evaluating eligibility, lenders need to consider whether the borrower was in operation before February 15th, 2020, and had employees who they paid salaries and payroll taxes or paid independent contractors.

Lenders will also ask for the following good faith certification-

1. The uncertainty of current economic conditions make the loan request necessary to support ongoing operations
2. The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease and utility payments
3. Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for

Note- There is an opportunity to fold emergency loans made between January, 31st, 2020 and the date this loan program becomes available into a new loan.

If you are an independent contractor, sole proprietor, or self-employed individual, lenders will also be looking for certain documents, such as payroll tax filings, Forms 1099-MISC, and income and expenses.

What Lenders will NOT look for?

- That the borrower sought and was unable to obtain credit elsewhere
- A personal guarantee is not required
- No collateral is required

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HOW MUCH CAN I BORROW?

Loans can be up to 2.5x the borrower's average monthly payroll costs, not to exceed \$10 million.

How do I calculate my average monthly payroll costs?

$$\begin{array}{|c|} \hline \text{sum of} \\ \hline \text{INCLUDED} \\ \hline \text{payroll costs} \\ \hline \end{array} - \begin{array}{|c|} \hline \text{sum of} \\ \hline \text{EXCLUDED} \\ \hline \text{payroll costs} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{PAYROLL} \\ \hline \text{COSTS} \\ \hline \end{array}$$

INCLUDED Payroll Cost:

1. For Employers: The sum of payments of any compensation with respect to employees that is a:

- salary, wage, commission, or similar compensation;
- payment of cash tip 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
- payment of state or local tax assessed on the compensation of the employee

2. For Sole Proprietors, Independent Contractors, and Self-Employed Individuals: The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

EXCLUDED Payroll Cost:

1. Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020
2. Payroll taxes, railroad retirement taxes, and income taxes
3. Any compensation of an employee whose principal place of residence is outside of the United States
4. Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116-5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act



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WILL THIS LOAN BE FORGIVEN?

Borrowers are eligible to have their loans forgiven.

How Much?

A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Interest on the mortgage obligation incurred in the ordinary course of business
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
- For borrowers with tipped employees, additional wages paid to those employees

The loan forgiveness cannot exceed the principal.

How could the forgiveness be reduced?

The amount of loan forgiveness calculated above is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees. **Specifically:**

- Reduction based on reduction of employees
- Reduction based on reduction in salaries

What if I bring back employees or restore wages?

Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (as compared to February 15, 2020) shall not reduce the amount of loan forgiveness **IF** by June 30, 2020 the borrower eliminates the reduction in employees or reduction in wages.