

Benefits of the Federal Lending Programs for Small Business Owners

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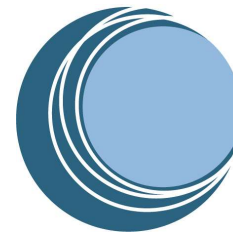
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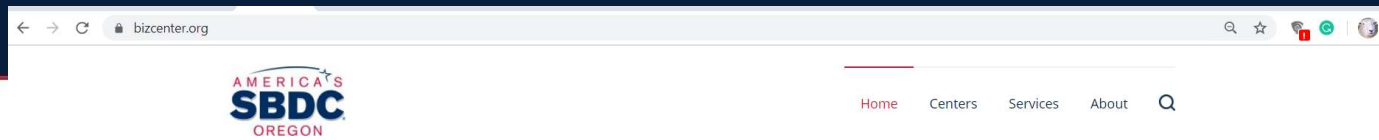
U.S. Small Business Administration



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COVID-19 RESOURCES



In response to the COVID-19 virus, Oregon SBDC Centers across the state currently remain open and available to assist businesses during this crisis. All Centers are operating virtually. Please contact your local [Center](#) for the best way to schedule an appointment. We encourage everyone to follow directions from local authorities and to remain safe and healthy during this time. [For the most up to date information, please visit our COVID-19 Business Resources page.](#)



We help small businesses grow.

www.bizcenter.org/covid-19/

[WWW.FACEBOOK.COM/COCCSBDC](https://www.facebook.com/COCCSBDC)



TODAY'S AGENDA:

- General timeline
- SBA Economic Injury Disaster Loan (EIDL)
- SBA Paycheck Protection Program (PPP)
- SBA Loan Debt Relief
- SBA Express Bridge Loan (EBL)

CAVEATS:

- What is included here is what we know right now.
- This is intended to be for informational purposes only. Official information is what is published by the government.
- This situation is fast moving and further guidance from Federal and State governments will be forthcoming. Changes will happen so know that those in the 'messenger' seat are doing the best they can.
- We are in uncharted waters, the situation is fluid, the program is new and there are still unanswered questions.
- **You should always consult with your CPA, attorney and banker before making any major decisions.**

Brief Timeline:

- March 6, 2020: Phase I: H.R. 6074; Coronavirus is deemed a disaster and SBA's "Disaster Loans Program" may be used to make economic injury disaster loans (EIDL)
- March 18, 2020: Phase II: H.R. 6201; Families First Coronavirus Response provides paid leave and establishes free testing, protects public health workers, and provides other benefits to children and families.

Timeline (continued)

- March 27, 2020: Coronavirus Aid, Relief, and Economic Security (CARES) Act establishes Paycheck Protection Program (PPP), more money for EIDL and money for SBA Debt Relief (dispenses with normal 30-day delayed effective date)
- April 2, 2020: PPP guidelines "Interim Final Rule" delivered to Lending Institutions
- April 3, 2020: PPP applications accepted by lenders from small businesses and sole proprietorships
- April 10, 2020: Independent contractors and Self-employed individuals can apply to lenders for PPP

Economic Injury Disaster Loan (EIDL)

- Direct loan from US Treasury via US Small Business Administration
- For small businesses* typically with less than 500 employees, private non-profits, owners of rental property, sole proprietors and independent contractors in business since January 31, 2020. Also tribal small businesses, cooperatives and others. See <https://bizcenter.org/covid-19/>
- Ineligible: agricultural enterprises, gambling (more than 30% of revenue from legal gambling), owners of unimproved real estate, adult entertainment and cannabis businesses (hemp exceptions?), see application for others <https://covid19relief.sba.gov/#/>
- No cost to apply and no obligation to accept a loan
- <https://sba.gov/size-standards/> *for small business size standards

EIDL (continued)

- Use of Funds: working capital for operating expenses due to loss of revenue or economic injury. Includes:
 - Fixed debt payments,
 - Payroll
 - Mortgage
 - Rent
 - Lease payments
 - Payments on short term debt
 - Accounts payable
 - Bills
- Not to be used for business expansion

EIDL (continued)

- Loan Amount: up to \$2,000,000
- Interest rate: 3.75% for small businesses, 2.75% for non-profits
- Loan term: up to 30 years, determined on case-by-case basis
- Payment deferral up to one year (interest still accrues)
- No personal guarantee on loans up to \$200,000
- Collateral: required for loans over \$25,000. Applicant will not be declined solely on the basis of lack of collateral
- Criteria:
 - Acceptable personal credit history
 - Demonstrate ability to repay

EIDL (continued)

- EIDL is not a grant and is not forgivable (more next page)
- You can refinance an EIDL loan made 1/31/20 – 4/3/20 with PPP (see PPP)
- If EIDL funds are used for payroll, and you get a PPP loan (more later), those PPP funds must be used to refinance the payroll portion of your EIDL loan
- It is possible to use EIDL funds for payroll in April and PPP funds for May and June (it all depends on loan timing)

EIDL

What's this about a \$10,000 Grant?

- At the end of the application, there is a box to check:
 “I would like to be considered for **an advance of up to \$10,000**”
- This is considered an emergency advance. It may be forgiven and deducted from the original EIDL loan amount
- SBA states that “this loan advance will not have to be repaid”
- **If you receive a PPP loan (more later) and it is forgiven, the amount to be forgiven will be reduced by the amount of your forgiven emergency EIDL advance**

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loan-emergency-advance>

EIDL: How to get an EIDL Loan

- Apply directly on-line at:

<https://covid19relief.sba.gov/#/>

- Note: the on-line application is fairly simple; additional documentation may be requested by SBA
- Additional documentation may include a form 413 - personal financial statement of the owner(s) and a form 2202 – schedule of liabilities of the business. Other information may also be requested.

Paycheck Protection Program (PPP)

- Purpose of the program is to provide cash flow assistance for employers to maintain payroll during this COVID-19 emergency
- Bank funded but guaranteed 100% by the Small Business Administration (SBA)
- For small businesses with fewer than 500 employees (some exceptions – see SBA size standards link previously)
- **Eligible businesses include:** 501(c)(3) non-profits, sole proprietorships, independent contractors, self-employed, tribal businesses, 501(c)(19) veterans organizations, franchises and others. See PPP Fact Sheet at: <https://bizcenter.org/covid-19/>

PPP (continued)

- Ineligible businesses:
 - Businesses engaged in illegal activity under federal, state or local law (cannabis warning), some others as determined by SBA
 - Household employers (you have a nanny, staff, etc.)
 - Any previous delinquencies or defaults on a federal loan in the last 7 years, causing loss to the government
 - An owner of 20% or more of the equity of the applicant business is incarcerated, on probation or parole, presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or has been convicted of a felony within the last five years.

PPP (continued)

- **Eligible expenses** include payroll costs, interest on long or short term debt incurred before 2/15/2020, rent under a lease agreement in force before 2/15/2020, utilities and other costs for which services began before 2/15/2020.
- You may also refinance an EIDL loan made between 1/31/2020 and 4/3/2020

PPP (continued)

- Payroll costs include:
 - Salaries, wages, commissions, or similar compensation
 - Cash tips or equivalent
 - Payments for vacation, parental, family, medical, or sick leave
 - Allowances for dismissals or separations
 - Payments for group health care benefits, including insurance premiums
 - Retirement benefits
 - State or local taxes imposed on employee compensation
 - For a sole proprietor or independent contractor: wages, commissions, income or retained earnings from self employment or similar compensation

PPP (continued)

- Excluded payroll cost:
 - The compensation of an individual employee in excess of an annual salary of \$100,000 prorated as necessary
 - Compensation paid to an employee whose primary residence is outside the U.S.
 - Federal employment taxes imposed or withheld between 2/15/2020 and 6/30/2020, including the employee's and employer's share of FICA, Railroad Retirement Act taxes, and income taxes required to be withheld from employees
 - Qualified sick or family leave wages paid if a tax credit is allowed under the Families First Coronavirus Response Act
 - Exclude any independent contractors as employees – they have the ability to apply for their own PPP

PPP – How much can I borrow?

HOW MUCH CAN I BORROW?

- Up to two months of your **average monthly payroll costs** from the last 12 months PLUS an additional 25% of that amount, capped at \$10 million.
- Your maximum loan amount may be subject to slightly different limitations if your business wasn't operating between February 15, 2019, and June 30, 2019 or if you are a seasonal business. See the SBA application form 2483 (04/20) for detail
- You can also add the outstanding amount of an EIDL loan made between 1/31/20 and 4/3/20, less the amount of any emergency advance.



PPP – How do I apply?

- Starting April 3, 2020, small businesses and sole proprietorships can apply
- Starting April 10, 2020, Independent Contractors and Self-Employed Individuals can apply
- Loans are available until June 30, 2020 – but there is a funding cap so ASAP
- *You can apply at any existing SBA 7(a) lender or through any FDIC depository institution, federally insured credit union. A list of participating lenders will be available at SBA.gov.*

PPP - WHAT WILL I NEED TO HAVE READY TO APPLY?

- You will need to complete the Paycheck Protection Program loan application and submit the application with the required documentation requested by your approved lender
- PPP application: <https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses>
- **Note:** Some lenders have forms on-line and require on-line submission
- Loans are available until June 30, 2020 but there is a funding cap so sooner is better
- You will need to provide your lender with payroll documentation including tax filings, 1099s and details of income and expenses for Independent Contractors and Sole Props.

PPP – Important to know

- No collateral required
- No personal guarantee- although **if the funds are used for fraudulent purposes, the US Government will pursue criminal charges!**
- Personal Certifications that the current economic conditions/COVID-19 justify the loan request in order for you to support ongoing operations, that you will use the funds to retain your employees and maintain payroll or make mortgage, lease, and utility payments and that you don't have an application already pending for this type of loan or have already received such a loan.

PPP – Will the loan be forgiven?

- When you receive the loan, you have **eight weeks** to spend the funds on eligible expenses
- If you use the loan to pay eligible expenses (as defined above), the loan may be forgiven
- The amount forgiven will be reduced by the amount of any EIDL emergency advance

PPP – Will the loan be forgiven? (continued)

- You will owe money to your lender if you use the loan amount for anything other than payroll costs, mortgage interest, rent, and utilities payments over the 8 weeks after getting the loan.
- Not more than 25% of the forgiven amount may be for non-payroll costs.
- You will also owe money if you do not maintain your staff and payroll.
 - Number of Staff: Your loan forgiveness will be reduced if you decrease your full-time employee headcount.
 - Level of Payroll: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than \$100,000 annualized in 2019.
 - Re-Hiring: You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

PPP – How do I get the loan forgiven?

- You need to submit a request to the lender that is servicing the loan for the 8-week period
- Provide documentation to verify:
 - Your number of Full-time equivalent employees and pay rates
 - Payments on eligible mortgage, lease and utilities
- The lender will make a decision on the forgiveness within 60 days

Your loan forgiveness may be reduced if:

- You don't use the funds for payroll costs, utilities, rent, etc.
- You cut employees' salaries by more than 25% of the total wages they received in the most recent quarter before the loan period – February 15, 2020, to June 30, 2020.
- You reduce your number of employees during this time period.

PPP – What if the loan isn't forgiven?

- For any amount not forgiven you will owe that money back in the form of a loan
- Loan Rate is 1%
- Term of loan: 2 Years
- Payments are deferred for 6 months; interest will accrue over that time period
- No prepayment penalties or fees

PPP – Other considerations

- You may only take out one PPP loan
- The SBA has waived the usual SBA requirement that you try to obtain some or all of the loan funds from other sources
- You can apply for a paycheck protection loan AND an **Economic Injury Disaster Loan**
- If you receive a PPP loan, you're disqualified from claiming the employee retention tax credit.
- If the SBA grants your loan forgiveness request, you will not qualify for deferred payroll taxes

How is PPP different from EIDL?

- **No personal guarantee or business collateral is required.** The SBA disaster loan (EIDL) may require collateral for loan amounts over \$25,000 or a personal guarantee for loans over \$200,000
- **It's ok if you also have access to credit elsewhere.**
- **Your PPP loan can be forgiven if you follow the terms.** The SBA disaster loan (EIDL) requires repayment (less the up to \$10,000 advance)
- **PPP loans cover a more restrictive set of eligible costs.** The SBA disaster loan can cover most operating expenses.
- **PPP is handled by lenders vs. EIDL is direct with the SBA.**

SBA Loan Debt Relief:

What is it and how does it work?

- Payment relief for existing SBA borrowers who have current (not past due) 7(a), 504 or Microloans
- SBA will pay directly to the lender six months of payments, including principal, interest and fees
- SBA will also pay principal and interest on new 7(a) loans issued prior to Sept. 27, 2020.
- This does NOT include any disaster loans made under PPP
- Payments begins with first payment due after March 27, 2020

SBA Loan Debt Relief:

What is it and how does it work? (continued)

- Lenders will need to provide to SBA the gross monthly loan amount due (both guaranteed and un-guaranteed portions) asap
- SBA will pay the first loan payment to Lender within 30 days of the first loan payment due date after March 27, 2020
- If Lender receives a payment from the borrower, it must inform borrower that they have the option of Lender returning the money or applying the funds to reduce loan balance
- It is a good idea to confirm with your lender that this is actually occurring

SBA Express Bridge Loan Pilot Program (EBL)

What is it and how does it work?

- Program modifies traditional SBA 7(a) Express program lending criteria to require less paperwork from borrowers
- **Only existing SBA Express Lenders may offer this to borrowers with existing business relationships (established on or before March 13, 2020) with the Lender**
- Purpose of the loan is to be a temporary bridge while waiting for an EIDL loan
- Maximum loan amount: \$25,000
- Only one EBL is allowed

SBA Express Bridge Loan Pilot Program (EBL)

What is it and how does it work? (continued)

- Maximum interest rate of WSJ Prime + 6.5%
- Maximum term of 7 years
- Collateral not required
- Fees paid by borrower: 2% SBA guaranty fee, application fee of 2% or \$250 (whichever is greater), late payment and out of pocket costs
- Loan to be repaid by the EIDL loan
- Lenders to follow all other SBA 7(a) eligibility and normal underwriting guidelines
- Apply with your Express Lender

Helpful websites

- Local resources: <https://centraloregonsos.com/>
- EIDL application: <https://covid19relief.sba.gov/#/>
- PPP info and FAQ: <https://home.treasury.gov/policy-issues/top-priorities/cares-act/assistance-for-small-businesses>
- SBA programs information: <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options>
- SBDC COVID19 Resources: <https://bizcenter.org/covid-19/>
- State of Oregon Resources: <https://www.oregon4biz.com/Coronavirus-Information/>

Other helpful websites

- <https://www.aicpa.org/> accounting help for the PPP
- <https://bizcentercat.org/covid19/> other funding sources
- <https://www.sba.gov/size-standards/> SBA size standards tool

Thank you!

HAVE QUESTIONS OR NEED HELP?

We are here for you. Contact us at:

Bizcenter.org | sbdc@cocc.edu | 541.383.7290

