MONUMENT ADVOCACY

Summary of CARES Act SBA Paycheck Protection Program (PPP) & Loan Forgiveness Program

The CARES Act includes several provisions aimed at providing immediate relief to small businesses and nonprofits who have suffered financial losses as a result of COVID-19. The resources include the launch of a Paycheck Protection Program (PPP) sponsored by the U.S. Small Business Administration (SBA) which authorizes $349 billion of federally guaranteed loans to help businesses and nonprofits maintain payroll and prevent layoffs from occurring.

The CARES Act's Paycheck Protection Program can offer loans up to $10 million and with 100 percent loan forgiveness if a business sustains its pre-COVID-19 payroll levels through June 30, 2020. PPP has a host of attractive features, such as forgiveness of up to 8 weeks of payroll based on employee retention and salary levels, no SBA fees, and at least six months of deferral with maximum deferrals of up to a year. Small businesses and other eligible entities will be able to apply if they were harmed by COVID-19 between February 15, 2020 and June 30, 2020. This program is retroactive to February 15, 2020 in order to help bring workers who may have already been laid off back onto payrolls. Loans are available through June 30, 2020.

It's important to note that the Paycheck Protection Program expands eligibility for loans, including allowing self-proprietors and contractors to apply, waives many loan terms that are typical with SBA loans, and provides incentives for banks to make such loans, and to help speed up the process.

Additionally, $17 billion is currently available for immediate relief to small businesses with non-disaster SBA loans, in particular 7(a), 504 and microloans. The SBA will cover all loan payments on these loans, including principal, interest and fees, for six months. This relief will also be available to new borrowers who take out loans within six months of the President signing the bill into law.

Finally, the CARES Act temporarily expands eligibility for SBA Economic Injury Disaster Loans (EIDLs). Through the SBA Economic Injury Emergency Grant Program, businesses can receive an emergency advance of up to $10,000 to small businesses and private non-profits harmed by COVID-19 within three days of applying for an SBA EIDL. To access the advance, companies must first apply for an EIDL and then request the advance. The advance does not need to be repaid under any circumstance, 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.

Before the enactment of the CARES Act, small businesses (and recently nonprofits) had the ability to apply for EIDL's emergency COVID-19 loan program for federal disaster relief. This program is targeted to pay up to $2 million in assistance for fixed debts, payroll, and other account expenses with an interest rate of 3.75 percent for small businesses and 2.75 percent for nonprofits. The CARES Act opened EIDLs to more types of small businesses, made it easier to apply, and ensured that EIDLs smaller than $200,000 can be approved without a personal guarantee.

Please note that the SBA will be announcing additional guidance on these programs in the next few days. We will update this document as needed.

FAQs Regarding the SBA Paycheck Protection Program & Loan Forgiveness Program

- Who can apply for the PPP?

  Businesses and 501(c)(3) nonprofits with no more than 500 employees, including employees of affiliates or an employee-based size standard as prescribed by the SBA here. Definition of employees include full-time and part-time wage and salary earners. The CARES Act provides a waiver to the employee cap for accommodation and food service businesses – so as long as no single location employs 500 or more employees and businesses operating as certain franchises of the SBA's Franchise Directory. Companies that receive financing via the Small Business Investment Company program can also participate.

- Are independent contractors, gig economy workers and self-employed individuals eligible?

  Yes, sole proprietors, independent contractors, gig economy workers and self-employed individuals are eligible for Paycheck Protection Program.

- Do PPP applicants have to seek credit elsewhere before applying as is typical with SBA loans?

  No. Under the CARES Act, businesses do not have to seek other sources of capital, including equity or debt investments from owners with liquid assets prior to obtaining a Paycheck Protection Loan.

- Can current borrowers of the SBA's EIDLs apply for a PPP loan?

  Yes, but with a caveat.

  - Current loan recipients or applicants for EIDLs specific to COVID-19 (between January 31, 2020 and the launch date of the PPP) are eligible to apply for a PPP. They may be able to refinance their EIDL into a PPP loan, where up to $10,000 would be subtracted from the amount forgiven under the Paycheck Protection Loan.
  - Once the PPP is launched, EIDLs cannot apply to the same expense as those covered by the PPP.

- What is the maximum loan amount?

  Businesses and non-profits are eligible for loans up to 2.5 times their monthly payroll costs – based on costs from the previous 10 months. Payroll costs comprise of salaries, certain employee benefits, state and local taxes and compensation to sole proprietors and independent contractors – up to $100,000. PPP loans do not apply to payroll for those making $100,000 or more, or for foreign employees, FICA and income tax withholdings and certain COVID-19 paid leave.

  This amount is intended to cover 8 weeks of payroll expenses and any additional amounts for making payments towards debt obligations. This eight-week period may be applied to any eight-week time frame between February 15, 2020 and June 30, 2020.

- How is the PPP loan size determined?

  Depending on the business's situation, the loan size will be calculated in different ways. The maximum loan size is always $10 million. If you were in business February 15, 2019 – June 30, 2020 your max loan is equal to 250 percent of your average monthly payroll costs during that time period. If your business employs seasonal workers, you can opt to choose March 1, 2020 as your time period start date.

  If you were not in business between February 15, 2020 – June 30, 2020, your max loan is equal to 250 percent of your average monthly payroll costs between January 1, 2020 and February 29, 2020.

  If you took out an EIDL between February 15, 2020 and June 30, 2020 and you want to refinance that loan into a PPP loan, you would add the outstanding loan amount to the payroll sum.

- What are allowable uses for PPP loans?

  The CARES Act specifies allowable uses of the loan to include:

  - Payroll costs (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; and payment of State or local tax assessed on the compensation of employees;
  - 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, or similar compensations (see exclusions above);
  - Payments of interest on any mortgage obligation (which shall not include 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.

- How much of the loan will be forgiven?

  If employers retain their employees and retain wages/salaries, the loan will be forgiven. If layoffs occur, the forgiveness will be reduced by the percent decrease in the number of employees.

  - For example: If a PPP borrower's payroll expenses decrease by 25 percent, the loan forgiveness amount is reduced by 25 percent.
    However, if employers rehire employees by June 30, 2020, the full loan amount will be forgiven.

- When is the loan forgiven?

  Borrowers will work with lenders to verify covered expenses and the proper amount of forgiveness. The loan is forgiven at the end of the eight-week range after the borrower takes out the loan.

- **Are borrowers responsible for interest on the forgiven loan amount?**

  No. The borrower is not responsible for the interest accrued in the eight-week period of the covered period of the forgiven loan. The remainder of the loan that is not forgiven will operate according to the loan terms agreed upon by the borrower and the lender.

- **What is the cap interest rate for the PPP loan that is not forgiven?**

  The interest rate is capped at 4% under a ten-year term. Principal and interest will continue to be deferred, for a total of 6 months to a year after disbursement of the loan.

- **Are there associated fees with the loan?**

  No. Borrowers will not have to pay any fees on the loan. Personal guarantees and collateral requirements are waived.

- **When are loan payments due?**

  Loan payments will be deferred for at least six months and up to one year starting at the origination of the loan.

- **What kind of lender can I get a PPP loan from?**

  All current SBA 7(a) lenders are eligible lenders for PPP.

- **When is the application deadline for the PPP?**

  Applicants are eligible to apply until June 30, 2020.

- **What information is required in the application?**

  The application process will be spelled out with additional guidance by the SBA. The CARES Act requires that the applicant must provide documentation verifying the number of full-time employees on payroll and pay rates during the covered period including payroll tax filings reported to the IRS, state income, payroll and unemployment insurance filings. They must be prepared to submit documentation including cancelled checks, payment receipts, transcripts of accounts, other documents verifying payments on covered mortgage, lease, and utility payments and obligations.

- **Can I get more than one PPP loan?**

  No, an entity is limited to one PPP loan.

- **How does the PPP loan work with the temporary Emergency Economic Injury Grants and the Small Business Debt Relief program?**

  Emergency Economic Injury Grant recipients and those who receive loan payment relief through the Small Business Debt Relief Program may apply for and take out a PPP loan.

- **Once an application is submitted, what is the anticipated turnaround for receiving a formal decision by the SBA on achieving the loan?**

  The CARES Act requires a 60-day response time by the SBA.

- **If the loan is approved, when should the borrower anticipate receiving the loan?**

  The CARES Act does not specify this, but current emergency EIDLs are typically provided to borrowers in segments within five days of receiving approval by the SBA.

- **When can businesses apply?**

  Starting April 3, 2020, small businesses and sole proprietorships can apply. Starting April 10, 2020, independent contractors and self-employed individuals can apply.

- **How do businesses apply?**

  Businesses can apply through any existing SBA 7(a) lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program.

FAQs Regarding Economic Injury Disaster Loans & Emergency Economic Injury Grants

- **What is an EIDL and what is it used for?**

  EIDLs are lower interest loans of up to $2 million, with principal and interest deferment available for up to 4 years that are available to pay for expenses that could have been met had the disaster not occurred, including payroll and other operating expenses.

- **Who is eligible for an EDIL?**

  Small businesses (including sole proprietors with or without employees), independent contractors, cooperatives and employee owned businesses, private non-profits and tribal small businesses

- **What is an Emergency Economic Injury Grant?**

  These grants provide an emergency advance of up to $10,000 to small businesses and private non-profits harmed by COVID-19 within three days of applying for an SBA EIDL. To access the advance, you first apply for an EIDL and then request the advance. The advance does not need to be repaid under any circumstance, 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.

- **Who is eligible for an Emergency Economic Injury Grant?**

  Those eligible for an EIDL and who have been in operation since January 31, 2020.

- **How long are Emergency Economic Injury Grants available?**

  The grants will be available from January 31, 2020 – December 31, 2020. The grants are backdated to January 31, 2020 to allow those who have already applied for EIDLs to be eligible to also receive a grant.

- **If I get an EIDL and/or an Emergency Economic Injury Grant, can I get a PPP loan?**

  Whether you've already received an EIDL unrelated to COVID-19 or you receive a COVID-19 related EIDL and/or Emergency Grant between January 31, 2020 and June 30, 2020, you may also apply for a PPP loan. If you ultimately receive a PPP loan or refinance an EIDL into a PPP loan, any advance amount received under the Emergency Economic Injury Grant Program would be subtracted from the amount forgiven in the PPP. However, you cannot use your EIDL for the same purpose as your PPP loan. For example, if you use your EIDL to cover payroll for certain workers in April, you cannot use PPP for payroll for those same workers in April, although you could use it for payroll in March or for different workers in April.

- **How do I apply for an Emergency Economic Injury Grant?**

  You can apply for an EIDL online with the SBA. When you apply, you can request an emergency grant of $10,000. The SBA will provide the grant within 3 days of receiving your application. You will not have to repay the grant, even if your application for a loan is denied.

FAQs Regarding the Small Business Debt Relief Program

- **Which SBA loans are eligible for debt relief under this program?**

  7(a) loans not made under the Paycheck Protection Program (PPP), 504 loans and microloans. Disaster loans are not eligible.

- **How does debt relief under this program work with a PPP loan?**

  Borrowers may separately apply for and take out a PPP loan, but debt relief under this program will not apply to a PPP loan.

- **How do I know if I'm eligible for a 7(a), 504 or microloan?**

  In general, businesses must meet size standards, be based in the U.S., be able to repay, and have a sound business purpose. To check whether your business is considered small, you will need your business's 6-digit North American Industry Classification System (NAICS) code and 3-year average annual revenue.

- **What is a 7(a) loan and how do I apply?**

  7(a) loans are an affordable loan product of up to $5 million for borrowers who lack credit elsewhere and need access to versatile financing, providing short-term or long-term working capital and to purchase an existing business, refinance current business debt, or purchase furniture, fixtures and supplies. In the program, banks share a portion of the risk of the loan with the SBA. There are many different types of 7(a) loans, you can visit this site to find the one that's best for you. You apply for a 7(a) loan with a bank or a mission-based lender. The SBA has a free referral service tool called Lender Match to help find a lender near you.

- **What is a 504 loan and how do I apply?**

  The 504 Loan Program provides loans of up to $5.5 million to approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. It is a good option if you need to purchase real estate, buildings and machinery. You apply through a Certified Development Company, which is a nonprofit corporation that promotes economic development. The SBA has a free referral service tool called Lender Match to help find a lender near you.

- **What is a microloan and how do I apply?**

  The Microloan Program provides loans up to $50,000 to help small businesses and certain not-for-profit childcare centers to start up and expand. The average microloan is about $13,000.

Sources: Senate Small Business Committee, Small Business Administration, a summary provisions compiled by Senator Chuck Schumer's office