

Navigating Small Business Relief under the CARES Act

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was officially signed into law by President Donald J. Trump. The CARES Act provides emergency financial relief to individuals, businesses and specific industries in connection with the COVID-19 pandemic, and includes an array of stimulus measures.

In particular, the CARES Act provides emergency relief to small business owners that may be of interest to financial professionals. First, the CARES Act expands the availability of loans and loan forgiveness under the Small Business Act for small businesses under the Paycheck Protection Program. Second, the CARES Act specifically allocates funds for disaster loan grants in connection with COVID-19. Third, the CARES Act provides debt relief by requiring the Small Business Administration (SBA) to cover principal and interest on certain SBA loans for a period. The chart below provides a summary of each of these programs. For more information, visit the SBA's [website](#).

Paycheck Protection Program

Under the CARES Act, the Paycheck Protection Program provides up to \$349 billion for job retention and certain other expenses. Small businesses and individuals who are self-employed or are independent contractors are eligible. Small businesses may qualify for up to \$10 million, depending on the small businesses 8 weeks of prior average payroll costs, plus an additional 25% of that amount. Most importantly, loans may be fully or partially forgiven under this program, depending on the use of the loan proceeds and the ability of the small business to maintain full-time employees and salaries.

	Paycheck Protection Program
Eligibility	Generally, small businesses with less than 500 employees (including sole proprietorships, independent contractors and self-employed persons) affected by COVID-19.
Criteria	The small business must certify in good faith that: (1) the loan request is necessary due to uncertain times; (2) the proceeds of the loan will be used for allowable expenses; (3) it has not applied for certain other loan programs.
Fees	No fees, collateral, or guarantees required.
Deadline to apply	June 30, 2020 (lenders may begin processing loan applications as soon as April 3, 2020)
How to apply	In general, through any existing SBA lender or participating bank or credit union.
Approval	Lenders must notify you of approval within 60 days of receiving your application.
Interest Rates	Maximum interest rate is 4%. As of 4/3/2020 the interest rate is 1% fixed and a 2-year note term.

Restrictions on use	Small businesses must use the proceeds of loan by June 30, 2020 for: (1) payroll costs; (2) costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave and insurance premiums; (3) employee salaries, commissions or similar payments; (4) payments of interest on any mortgage obligation (which cannot include any prepayment of or payment of principal on a mortgage obligation); (5) rent (including rent under a lease agreement); (6) utilities; and (7) interest on any other debt obligations that were incurred by June 30, 2020.
Loan Forgiveness	Full or partial forgiveness are available if the proceeds are used for payroll, rent, mortgage interest, or utilities. In addition, the amount of loan forgiveness will be reduced by decreases in either full-time headcount or salaries and wages.
Deferment	Loan payments may be deferred for at least six months, but no longer than one year.

COVID-19 Economic Injury Disaster Loans

Separate from the Paycheck Protection Program, the CARES Act establishes additional funds for the SBA’s Economic Injury Disaster Loans (EIDL) and Loan Advances for small business owners. EIDLs are a low-interest loans that are administered directly through the SBA. Typical EIDLs require a small business that is applying for the loan to be located in an area that has been declared an “eligible area.” However, given the far-reaching impact of the COVID-19 pandemic, the CARES Act deems all small businesses to be impacted and eligible for EIDLs. Typical EIDLs do not provide loan advances upon completion of an application, however the CARES Act provide a loan advance (up to \$10,000) that functions more like a grant because it does not have to be repaid. If a small business has already applied for a EIDL, it may now supplement its application to request a loan advance.

Eligibility	Generally, small businesses with less than 500 employees (including sole proprietorships, independent contractors and self-employed persons) affected by COVID-19 and that were in business as of January 31, 2020.
Criteria	The loans are available to businesses in all 50 states. The CARES Act notes that small businesses will need to certify to their eligibility.
Fees	The CARES Act does not provide details on fees or collateral. No personal guarantees are required for loans and advances totaling less than \$200,000.
Deadline to apply	December 31, 2020
How to apply	Small businesses should apply directly with the SBA.
Approval	The loan advance will be issued within 3 days of receiving your application. Loan approval will depend on volume.

Interest Rates	The CARES Act does not specify the maximum interest rate. However, the SBA interest rate for for-profit businesses is 3.75% and 2.75% for non-profits.
Restrictions on use	<p>The loan advance may be used to: (1) provide paid sick leave to employees unable to work due to COVID-19; (2) maintain payroll to retain employees; (3) meet increased costs to obtain materials unavailable from original sources due to interrupted supply chains; (4) make rent or mortgage payments; and (5) repay obligations that cannot be met due to revenue losses.</p> <p>The loan may be used to pay fixed debts, payroll, accounts payable, or other bills that cannot be paid because of the COVID-19 pandemic.</p>
Loan Forgiveness	<p>The loan advance does not need to be repaid under any circumstance, even if you are not approved for the EIDL program.</p> <p>However, if a small business applies for an EIDL, receives a loan advance, and is later approved for the Paycheck Protection Program, then the advance amount will be subtracted from any loan forgiveness under the Paycheck Protection Program.</p>
Deferment	The CARES Act does not address deferring payments on EIDLs.

SBA Debt Relief Program

In addition to expanding the availability of loans, the CARES Act allocates \$17 billion in emergency relief for certain borrowers who have existing loans under the SBA. The SBA can use the allocated funds to make payments on behalf of borrowers. More specifically, the Small Business Administration will pay the principal, interest and any associated fees that are owed on a covered loan in a regular servicing status. This program excludes loans made under the Paycheck Protection Program.

Eligibility	Small businesses who have or obtain: (1) any SBA 7(a) loans (excluding loans under the Paycheck Protection Program); (2) SBIC loans; or (3) microloans.
Criteria	The loan must be in regular servicing status.
Deadline to apply	The CARES Act does address the deadline for this program.
How to apply	The CARES Act does address how to apply for this program.
Benefits	<p>The Small Business Administration will pay principal, interest and fees, according to the following:</p> <p>For covered loans obtained prior to March 27, 2020 and not currently deferred, the Small Business Administration will make payments for 6 months beginning with the next payment due.</p>

For covered loans obtained prior to March 27, 2020 and currently deferred, the Small Business Administration will make payments for 6 months beginning with the next payment due after the deferment ends.

For covered loans obtained between March 27, 2020 and ending 6 months after, the Small Business Administration will make payments for 6 months beginning with the first payment due.

Deferment

The CARES Act encourages the SBA to discuss extended maturities and deferment.