

Small Business Loans under CARES

Friday, March 27th President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES). The CARES Act's \$2+ trillion price tag includes extraordinary public health spending to battle the COVID-19 pandemic, immediate cash relief for individual citizens; a broad lending program for small businesses; and, targeted relief for industries hit especially hard. The bill is 880 pages, and this post will summarize the important changes to the Small Business loan program.

Forgivable SBA Loan Program

CARES creates a new type of loan for the Small Business Administration. Unlike the disaster loans currently available, these loans are potentially forgivable of up to 100% of the principal amount borrowed. Further, these loans are not tied directly to establishing losses suffered from natural disasters (there is a presumption of a negative impact from COVID-19). Further, these new loans do not require collateral or guarantees. This allows the program to be available to (i) many new businesses not otherwise able to use the SBA loan program, and (ii) provides friendlier terms.

Eligibility

Businesses, nonprofits, veterans' organizations, and tribal concerns with less than 500 employees are eligible (unless the industry has a higher size standard under SBA). This loan program is even available to sole proprietors, independent contractors, and self-employed individuals (who meet specific requirements).

Amount and Terms

The loans are capped at the lesser of \$10 million and 2.5 times the average monthly payroll costs incurred in the one-year period before the date of the loan. However, for any employee who is paid more than \$100,000 salary, only the amount up to the \$100,000 is calculated into the number.

An Eligible borrower may receive one covered loan, and such proceeds may be used for: payroll costs, a continuation of group health care benefits (during periods of sick, medical or family leave, or insurance premiums). They may also be used for salaries (or similar compensations), interest on mortgage obligations, rent, utilities, and interest on other outstanding debt.

Forgiveness

The amount of the loan that is forgivable is the sum of payroll costs, mortgage interest payment, rent, and utilities incurred or paid by the borrower during the 8-week period beginning on the loan origination date. Any portion of the loan that is forgiven is excluded from taxable income. If the recipient of the loan laid off employees or reduced wages/salaries of its workforce between February 15 and June 30, 2020, the amount of forgiveness is reduced proportionally by (i) any reduction in employees retained compared to historical levels, and (ii) the decrease in the pay of

any employee beyond 3% of their historical compensation. Further, to encourage workplace stabilization, any personnel or salaries cuts made between February 15th and April 26th will not be counted, if the business rehires the number of personnel or returns to the adjusted salary as applicable by June 30th, 2020.

Related Assistance

The CARES Act also creates a new grant program under the SBA's Office of Disaster Assistance to provide quick relief for applicants awaiting processing of SBA Economic Injury Disaster Loans (EIDL). Loan applicants can get up to \$10,000 to cover immediate payroll, mortgage, rent, and other specified expenses. This grant does not have to be repaid. A business that receives an EIDL can apply for, or refinance its EIDL into the forgivable loan product.

Further, lenders on existing SBA backed loans are encouraged to provide payment deferments and extended maturity dates to avoid balloon payments or requirements that would increase deb as a result of deferment. The SBA will pay lenders the deferred principal and interest for a period.

For specific details on each policy read the full act [here](#).