

# COVID-19 Relief: Understanding SBA Loans and Other Opportunities under the CARES Act

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| <b>PAYCHECK PROTECTION PROGRAM (PPP)</b>           |                          | <b>ECONOMIC INJURY DISASTER LOAN (EIDL)</b>   |
|--|--------------------------|---|
| Payroll and approved operating expenses            | <b>USES</b>              | Working capital   |
| No collateral required                             | <b>COLLATERAL</b>        | No collateral on loans < \$25k; SBA will take best lien available (excl. RE) on loans > \$25k |
| Up to 100% with documentation and approval         | <b>FORGIVENESS</b>       | Not eligible for forgiveness  |
| 2.5x avg monthly payroll for prior 12 months       | <b>AMOUNT</b>            | Up to six months operating expenses not to exceed \$2MM, based on actual injury               |
| 1% on unforgiven portion; 2-year fixed note        | <b>TERMS</b>             | 3.75% small businesses<br>2.75% non-profits<br>30-year fixed note                             |
| No payments for first 6 months                     | <b>DEFERMENT</b>         | No payments for first 12 months   |
| For-profit small businesses<br>Private non-profits | <b>ELIGIBLE ENTITIES</b> | For-profit small businesses<br>Private non-profits  |
| SBA Approved Bank                                  | <b>APPLY</b>             | SBA.GOV/DISASTER  |

# Paycheck Protection Program (PPP)

- \$350 billion allocated for SBA loans of up to \$10 million per eligible small business.
- All or some portion may be forgiven based upon use of proceeds and supporting documentation.
- Available through June 30, 2020 and may be retroactive to February 15, 2020 to allow employers to rehire workers already been laid off
- Available through SBA and Treasury-approved lenders

## Eligible small businesses (in business by February 15, 2020):

- Businesses with up to 500 employees or which meet the applicable size standard for the industry as provided by SBA's existing regulations
- Businesses in the accommodation and food services industries with more than one physical location but no more than 500 employees at each location
- Nonprofit organizations, veterans' organization and tribal businesses
- Certain self-employed individuals, freelancers, independent contractors and sole proprietors

## Amounts:

- Qualifying businesses can borrow 2.5 times their monthly payroll expenses, up to \$10 million.
- Monthly payroll expenses are calculated to include salary, wages, commission, cash/tip equivalent, vacation or other paid leave, severance, premiums and expenses related to group health benefits, retirement benefits, and state/local taxes which are part of an employee's compensation.

## Terms:

- Can be used for payroll costs, including taxes, insurance premiums and costs associated with health care benefits, salaries, commissions, mortgage interest, rent, utilities, and interest on debt incurred before the covered period. Eligible payroll costs do not include annual compensation greater than \$100,000 for individual employees. (Interim Rule indicates at least 75% must be used for payroll.)
- If used for qualified purposes through June 30, 2020, PPP loans are eligible for forgiveness. Any amounts not forgiven subject to repayment terms.
- Amount of forgiveness can be reduced or increased based upon use of funds and employment levels.
- Interest currently 1%, capped at 4% and no applicable fees.
- Payments of principal, interest, and fees will be deferred for six months.
- Maximum maturity date of up to 2 years.

# Economic Injury Disaster Loans (EIDL)

- \$10 billion allocated for EIDLs of up to \$2 million, directly from SBA with a maturity of up to 30 years
  - Intended to cover payroll, accounts payable, and other fixed operating expenses
  - Cannot be used for refinancing, making loan payments on other federal debts, to pay IRS tax penalties or to pay out dividends
  - Can be rolled into a PPP
- Amount of loan determined by SBA on a case-by-case basis based on extent of economic injury
- Interest rates capped at 3.75% for companies and 2.75% for nonprofits.
- Payment can be deferred for up to 12 months; no pre-payment penalty

## Eligible Entities

- Traditional EIDL open to small businesses, defined by revenues and number of employees (by industry)
- CARES Act extended COVID-19 EIDL to broader category, including most small businesses with fewer than 500 employees (including sole proprietorships, independent contractors and self-employed persons), ESOPS with fewer than 500 employees, private non-profit organizations, small agricultural co-ops, tribal businesses and 501(c)(19) veterans organizations affected by COVID-19
- Must have been in business on or before January 31, 2020
- Must be able to show that the business is directly affected by disaster

## Lending Criteria

- Acceptable Credit History, including personal credit check for owners with more than 20% ownership
- Ability to Repay
- Physically located in declared disaster area and suffered working capital losses due to declared disaster, not due to other reasons
- No collateral needed on loans up to \$25,000 (SBA is not securing real estate as collateral and will not decline a loan solely for lack of collateral)
- No personal guarantee required for loans less than \$200,000
- No need to show that business was unable to get loan elsewhere; requirement waived by CARES Act

## Emergency EIDL Grants/Advances

- CARES Act allows EIDL advances of up to \$10,000, paid within three days of application
- Need not be repaid if used to pay for paid leave, payroll, COVID-19 related costs, business rent or mortgage, operating expenses (even if full loan not approved)

## Application

- No cost to apply
- Application: gross revenues, COGS for 12 months prior to 1/31/2020; rental properties lost rents due to COVID-19; business details (size, age); ownership

# Small Business Debt Relief

- **Eligibility**
  - All **existing** SBA 7(a), 504 and Microloans **and new loans** within 6 months of enactment (3/27/2020)
  - Does not include PPP loans
- SBA will pay all P&I and fees for a full 6 months
- No later than 30 days after the date on which the first payment is due
- If the loan is currently in deferment, then SBA will begin making payments after deferment period.
- SBA will encourage lenders to provide deferment up to one year after enactment.
- Borrowers who obtain new loans under those programs within six months after the enactment of the CARES Act are also entitled to have the SBA make a full 6 months of loan payments.
- The SBA is directed to promulgate implementing regulations within 15 days of enactment of the CARES Act.
- Will debt relief be taxable?

# SBA Express Bridge Loans (EBL)

- 2017 SBA pilot program for local disaster relief, expanded March 25, 2020 to include small businesses nationwide adversely impacted under the COVID-19 Emergency Declaration.
- Lender must have existing banking relationship with EBL applicant as of March 13, 2020.
- Applicant must have been adversely impacted by COVID-19 emergency.
- Only one EBL available per applicant.
- Funds must be used to support applicant's survival and/or reopening of business.
- Applicant must not be able to obtain credit elsewhere on reasonable terms.
- Applicant must have a FICO Small Business Scoring Service Score (SBSS Score) of no less than 130.
- Personal credit score for each guarantor required, consistent with Lender's standards for similarly-sized, non-SBA guaranteed commercial loans.
- Term loan not to exceed 7 years (revolving lines of credit are not permitted).
- SBA Express interest rate policy, not to exceed Prime + 6.5%.
- SBA guaranty percentage is limited of 50%.
- 2% upfront SBA guaranty fee required.
- SBA Express Lenders are not required to take collateral for EBL, but may cross collateralize with other SBA loans
- Lenders may charge an EBL applicant an application fee of 2% of the loan amount up to \$250, whichever is greater.
- EBL can be approved through March 13, 2021, due to COVID-19 Emergency Declaration.

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**Questions?**

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