
MEMORANDUM

TO: Clients and Other Interested Parties
FROM: Cornerstone Government Affairs
SUBJECT: COVID-19 SBA LOAN PROGRAMS
DATE: March 27, 2020

The following is a summary of the two small business loan programs created as a result of the COVID-19 Pandemic.

The first program was created through the passage of what we are calling the “COVID-I” legislation. That bill created a \$1 billion fund to immediately assist small businesses hit hard by the current economic shutdown. Unlike traditional Small Business Administration (SBA) funding mechanisms, this program is being administered directly by the SBA and is live and accepting applications currently (see more below).

The second program was created through the passage of what we are calling “COVID-III” legislation. That bill created the Paycheck Protection Program and the Economic Injury Disaster Loan (EIDL) program. These programs will be administered more like traditional SBA programs, i.e. through third party, 7(a) lenders.

NOTE #1 (update): Organizations CAN accept funds from both programs, but they must demonstrate the funds are being used for different purposes.

NOTE #2: Cornerstone enjoys relationships with two SBA 7(a) lenders, who have agreed to provide expedited services to those clients who need to access funds and participate in the program. For more information, please email Campbell Kaufman at ckaufman@cgagroup.com.

NOTE #3 (update): Cornerstone is aware of myriad questions around the implementation of the programs and is in regular contact with the House and Senate Small Business Committees who wrote the language, as well as with the SBA, and several 7(a) lenders to secure answers. We will host a conference call with Hill staff, lenders, and Cornerstone professionals on Tuesday morning – details forthcoming.

COVID-I

The U.S. Small Business Administration is offering designated states and territories low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury as a result of the coronavirus (COVID-19). Upon a request received from a state’s or territory’s governor, SBA will issue under its own authority, as provided by the Coronavirus Preparedness and Response Supplemental Appropriations Act that was recently signed by the President, an Economic Injury Disaster Loan (EIDL) declaration.

- Any such Economic Injury Disaster Loan assistance declaration issued by the SBA makes loans available statewide to small businesses and private, non-profit organizations to help alleviate economic injury caused by the coronavirus (COVID-19). This will apply to current and future disaster assistance declarations related to coronavirus.
- SBA’s Office of Disaster Assistance will coordinate with the state’s or territory’s governor to submit the request for Economic Injury Disaster Loan assistance.

- Once a declaration is made, the information on the application process for Economic Injury Disaster Loan assistance will be made available to affected small businesses within the state.
- SBA's Economic Injury Disaster Loans offer up to \$2 million in assistance and can provide vital economic support to small businesses to help overcome the temporary loss of revenue they are experiencing.
- These loans may be used to pay fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact. The interest rate is 3.75% for small businesses. The interest rate for non-profits is 2.75%.
- SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay.
- SBA's Economic Injury Disaster Loans are just one piece of the expanded focus of the federal government's coordinated response, and the SBA is strongly committed to providing the most effective and customer-focused response possible.
- To apply for these loans, click here - <https://disasterloan.sba.gov/>.
- For questions, please contact the SBA disaster assistance customer service center at 1-800-659-2955 (TTY: 1-800-877-8339) or e-mail disastercustomerservice@sba.gov.

COVID-III

The third COVID-19 package expected to become law includes a new SBA loan program, the Paycheck Protection Program, as well as a grant program associated with the EIDL program. The Paycheck Protection Program is intended to keep workers on small business payrolls through offering forgivable loans. The EIDL grant program offers small businesses a one-time \$10,000 grant to cover costs in the short term.

The Paycheck Protection Program

Applies to you if:

- You were in business and employed fewer than the greater of 500 people or the [SBA size standards in number of employees for your industry](#) on February 15, 2020.
- You are a small business, nonprofit, veterans' organization, tribal business, or are self-employed, an independent contractor or sole proprietor.

What it does:

- Allows you to apply for a 100% government backed, low interest SBA 7(a) loan up to \$10 million. The loan amount will equal 250% of your average monthly payroll costs.
- The period covered for the debt forgiveness is from February 15, 2020 until June 30, 2020.
- The 100% government backed loans and fee waivers will be authorized through December 31, 2020.
- Allows you to use the loan to cover payroll costs, including salaries, paid sick and medical leave, insurance premiums, mortgage, rent and utility payments.

- Allows the loan to be forgiven in an amount equal to what you spent on payroll, rent and mortgage interest (on leases and mortgages in effect on February 15, 2020).
- Reduces the loan amount forgiven proportionately to the reduction in number of employees retained compared to last year and reduced by the reduction in pay of any employee greater than 25% compared to last year.
- To encourage you to rehire your laid-off employees, you will not be penalized for having a reduced payroll at the beginning of the period.
- Ensures that the loan forgiveness amount will not count as taxable income.
- Reduces the amount of loan forgiveness under the Paycheck Protection Program by the amount of your EIDL grant (see below).
- Delegates authority to all current 7(a) lenders to determine your eligibility.
- Prevents you from accessing both this and an SBA disaster relief loan for the same purpose.

How you can access it:

- Contact one of SBA's preferred lenders - <https://www.sba.gov/partners/lenders/microloan-program/list-lenders>.

Q&A / Additional Details to the PPP Program

Covered Period = February 15, 2020 – June 30, 2020

Payroll costs include the sum of payments of any compensation with respect to employees that is:

1. A salary, wage, commission, or similar compensation;
2. Payment of cash tip or equivalent
3. Payment for vacation, parental, family, medical or sick leave
4. Allowance for dismissal or separation
5. Payment required for the provision of group healthcare benefits, including insurance premiums
6. Payment of any retirement benefit
7. Payment of state or local tax assessed on the compensation of employees
8. The sum of payments of any compensation or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment or similar compensation and that is in an amount not more than \$100,000 in one year, as pro-rated for the covered period

Payroll costs do NOT include:

1. The compensation of an individual employee in excess of \$100,000, as pro-rated for the covered period
2. Taxes imposed or withheld under Chapters 21 (federal insurance), 22 (railroad retirement), or 24 (income tax) of the Internal Revenue Code
3. Compensation of an employee whose principal place of residence is outside the U.S.
4. Qualified sick leave wages for which a credit is allowed under COVID-II legislation (Families First)
5. Qualified family leave wages for which a credit is allowed under COVID-II legislation (Families First)

Maximum Loan Amount = LESSER of:

1. The sum of the product obtained by multiplying:
 - a. The average total monthly payments by the applicant for payroll costs during the 1 year period prior to the date on which the loan is made (unless you claim to be a seasonal employer in which case it is the average for the 12 week period starting Feb 15 or March 1, 2019.) by
 - b. 2.5
 - c. And outstanding amounts on existing SBA loans made between January 31, 2020 and June 30, 2020
2. \$10 million

Allowable uses of loan proceeds (during covered period, so through June 30):

1. Payroll costs
2. Costs related to continuation of group healthcare benefits during periods of paid sick, family, or medical leave, and insurance premiums
3. Employee salaries, commissions, or similar compensation
4. Payments of interest on any mortgage obligation (but not any prepayment of or payment of principal)
5. Rent, including rent under a lease agreement
6. Utilities (electricity, water, gas, telephone, internet, transportation)
7. Interest on any other debt obligations incurred before the beginning of the covered period (January 30)

SBA delegates authority of decisions on loans to lenders using following guidelines: Lender must determine that borrower was:

1. In operation on Feb 15, 2020
2. Had employees for whom borrower paid salaries and payroll taxes or
3. Paid independent contractors via 1099

SBA has no recourse on these loans unless the borrower uses it for something other than one of the authorized purposes.

No personal guarantee or collateral is required to get the loan.

Even if you can't get credit elsewhere you can get the loan.

Borrower will have to certify:

1. Uncertainty of current economic conditions makes the loan necessary
2. The funds will be used to maintain payroll, make mortgage/rent or utility payments
3. That the applicant doesn't have/will not have a pending loan application for the same purpose (no double dipping out of this pot) through Dec. 31, 2020

For any loan with a remaining balance after the forgiveness portion, the SBA will continue to guarantee the loan 100%.

The remainder will have an interest rate of 4% and for a term of 10 years.

Lenders are required to defer any payment from borrowers for 6 months minimum to maximum of 1 year. (SBA will provide guidance on deferment).

Borrowers CAN get an SBA Economic Injury Disaster Loan as well, provided that proceeds from that loan aren't used for same purposes as proceeds from this Paycheck Protection loan.

No prepayment penalty allowed.

Loan Forgiveness:

Borrower will have portion of the loan forgiven for 8 weeks of payments of:

1. Mortgage interest (not principal)
2. Rent
3. Payroll (see above definition)
4. Utility costs (gas, water, electricity, transportation, internet, telephone)

Loan forgiveness will be reduced if you decrease your employee count or payroll:

1. The amount of loan forgiveness will be reduced by the amount of reduction in total salary or wages of any employee during the covered period that is in excess of 25% of the total salary or wages for the employee during the most recent full quarter during which the employee was employed prior to the covered period. *An employee here means any employee that didn't make more than \$100,000 in 2019.
2. Re-hires: your loan forgiveness doesn't get reduced for any reduction in salary/hours or terminations of employees from Feb. 15 through 30 days after enactment of CARES Act (POTUS signed on 3/27) as long as you rehire them by June 30. *SBA is given authority by Congress to make "de minimis" exemptions to this requirement

Proof to get loan forgiveness:

Borrower will need to show to lender to get loan forgiven:

1. Documentation verifying the number of FTE employees and pay rates, including
 - a. Payroll tax filings with the IRS
 - b. State income, payroll, and unemployment insurance filings
2. Documentation including cancelled checks, payment receipts, transcripts of accounts or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations, and covered utility payments
3. A signed certification that what you submit is true.

Any forgiven loan will be excluded from taxable gross income.

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