

COVID-19 FINANCIAL ASSISTANCE OVERVIEW

Phase I

“Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020”

This Act (H.R. 6074) was passed on 3/6/20 and included a provision to fund SBA Economic Injury Disaster Loans (“EIDLs”) for businesses affected by COVID-19. These loans will be made directly by the SBA and not through its approved lender network.

HOW TO APPLY FOR AN EIDL LOAN:

- Qualifying small businesses and non-profits operating in states or territories covered by an U.S. SBA Economic Injury Disaster Loan assistance declaration related to the Coronavirus/COVID-19 pandemic disaster (check SBA website for up-to-date declarations), should submit applications for EIDL loans online, through the U.S. SBA’s website at:
- <https://disasterloan.sba.gov/ela/Account/Login>
- As part of the EIDL application process, a small business applicant must submit a signed and dated IRS Form 4506-T, which allows the IRS to release the applicant’s tax returns for the previous tax year to the U.S. SBA. (Note: See below of Links to Documents required for Filing)

TIMING:

- The U.S. SBA goal seeks to review and process EIDL loan applications within 21 days of receipt of a complete application from a qualifying Small business or non-profit.
- EIDL loan applicants can help ensure efficient review and processing of their applications by the U.S. SBA by confirming that they include all required and necessary information with their application materials at the time they submit their application to the U.S. SBA.

U.S. SMALL BUSINESS ADMINISTRATION ECONOMIC INJURY DISASTER LOAN PROGRAM SUMMARY

WHO IS ELIGIBLE FOR A U.S. SBA EIDL LOAN?:

- Small businesses, small agricultural cooperatives, and private non-profit organizations without access to credit through traditional lending sources who have suffered a “substantial economic injury” as a result of the Coronavirus/COVID-19 pandemic.
- The U.S. SBA evaluates EIDL applications to determine if an applicant small business is unable to obtain credit from alternate sources, as only those small business that lack access to credit through alternate traditional private lending sources are eligible for an EIDL.
- “Substantial economic injury” means the applicant small business or non-profit presently is unable to meet its obligations to pay its ordinary and necessary operating expenses, such as rent or payroll.
- Please note that neither a reduction in a small business’s profits, nor a loss of anticipated sales are sufficient to establish “substantial economic injury” required to qualify for an EIDL through the U.S. SBA.



WHAT ARE THE TERMS OF A U.S. SBA EIDL LOAN?:

- Depending on a qualifying small business's circumstances and qualifications, the U.S. SBA will make loans up to \$2,000,000.00 available to meet financial obligations and operating expenses that could have been met by the qualifying small business or non-profit organization had the Coronavirus/COVID-19 pandemic disaster not occurred.
- Factors considered by the U.S. SBA in issuing an EIDL loan and determining the initial principal amount of the EIDL loan:
 - The Small Business's total debt obligations;
 - The aggregate amount of operating expenses that mature during the period impacted by the Coronavirus/COVID-19 pandemic disaster and the small business's anticipated working capital needs during the same period; and
 - Expenses the qualifying small business could have met at a working capital position it could have maintained had the Coronavirus/COVID-19 disaster not occurred.
- Interest Rates: The applicable interest rates for EIDL loans are:
 - 3.75% for small businesses; and
 - 2.75% for non-profits.
- Credit History: Applicants for EIDL loans must have a credit history acceptable to the U.S. SBA and be able to show their ability to repay the U.S. SBA.
- Collateral: All EIDL loans for initial principal amounts greater than \$5,000.00 require some formal collateral to secure the qualifying small business's debt obligation to the U.S. SBA.
 - Real estate is an acceptable form of collateral.
 - Although the U.S. SBA will not reject an application for an EIDL loan solely for lack of collateral, small business applicants are required to pledge whatever collateral is available to them.
- Term of Loan:
 - The maximum term of an EIDL loan is 30 years.
 - The U.S. SBA determines the appropriate loan terms for qualifying small businesses on a case-by-case basis, based on each particular small business borrower's ability to repay the EIDL loan.
- Financial Statements and Personal Guarantees:
 - The U.S. SBA requires submission of a personal financial statement for each partner, officer, director and stockholder with 20% or greater ownership in the applicant small business with the EIDL loan application.
 - The U.S. SBA generally requires personal guarantees from the principals of the applicant small business.
- Additional Documentation of Losses:
 - In order for the SBA to understand an applicant small business's current financial condition relative to its financial condition during a period of normal operations, an applicant small business must furnish balance sheets and profit and loss statements for a similar time period, to serve as a point of reference for the U.S. SBA.
 - The U.S. SBA will request an applicant small business to submit such comparative financial statements during the EIDL loan application process.
- Restriction on Use of EIDL Loan Funds:
 - The U.S. SBA makes EIDL loans for specific and designated purposes.



- Small business borrowers in receipt of EIDL loan funds must use the such funds for the particular purposes designated by the U.S. SBA, such as for working capital or to meet ordinary expenses, such as payroll.
- Small business borrowers in receipt of EIDL loan funds are prohibited from using such loan funds for purposes outside of those parameters designated by the U.S. SBA.
- For example, a small business borrower cannot use EIDL loan funds to expand or diversify its business operations.
- Insurance: The U.S. SBA may require a qualifying small business borrower to obtain appropriate insurance coverages, in order to secure repayment of the EIDL loan and protect the borrower.
- Documents Required for Application (some of these are covered if applying online):
 - **SBA Disaster Resources**
 - **SBA 3 Step Process**
 - **SBA Loan App Sole Proprietor**
 - **SBA Loan App LLC, Corp, Partnership, etc**
 - **Fee Disclosure Form**
 - **Instructions for IRS Form 4056-T**
 - **IRS Form 4056-T**
 - **Personal Financial Statement**
 - **Schedule of liabilities**
 - **Monthly Sales Figures**

Phase II

“Families First Coronavirus Response Act”

This Act (H.R. 6201) was passed on 3/18/20 and included provisions to give paid leave to workers who did not have paid sick leave and extend paid leave to workers who only had a few days and expanded unemployment benefits with nearly \$1 billion in additional funding to states.

PAID SICK LEAVE BENEFITS ANALYSIS:

The Families First Coronavirus Response Act requires private employers with fewer than 500 workers and all public employers to provide paid sick leave to employees affected by the coronavirus (exceptions for health care providers, emergency responders and certain small businesses are allowed). Full-time workers get up to 80 hours of sick leave, while part-time workers get sick leave for the average number of hours they work over a two-week period. A worker is only able to take paid leave if he or she is:

- Subject to a federal, state or local coronavirus quarantine or isolation order;
- Advised by a health care provider to self-quarantine due to coronavirus concerns;
- Experiencing coronavirus symptoms and seeking a medical diagnosis;
- Caring for someone else who is subject to a coronavirus-related federal, state or local quarantine or isolation order, or who has been advised by a health care provider to self-quarantine due to coronavirus-related concerns;
- Caring for a son or daughter if the child's school or daycare has been closed, or the child's care provider is unavailable, due to coronavirus precautions; or



- Experiencing any other substantially similar condition specified by the Secretary of Health and Human Services.

Workers who are sick or quarantined get full pay while on coronavirus leave, up to \$511 per day (\$5,110 in total). Workers caring for another person or on leave because of an HHS-specified condition get two-thirds of their normal pay while on leave, up to \$200 per day (\$2,000 in total).

The new law also extends the existing Family and Medical Leave Act (FMLA) to cover a worker's absence (including an inability to telework) to care for a minor son or daughter if the child's school or daycare has been closed, or the child's care provider is unavailable, because of the coronavirus.

Workers receive two-thirds of their regular salary while on coronavirus-related FMLA leave, but compensation is capped at \$200 per day and \$10,000 in total. However, this leave does not kick in until after 10 days. (During that time, workers are presumably able to take sick leave as described above.)

The expanded FMLA provisions apply to employers with fewer than 500 employees, but not to certain health care providers and emergency responders. Exemptions are also available for small businesses with fewer than 50 employees if the new requirements jeopardize the business's viability.

Any wages paid as coronavirus sick or family leave aren't subject to Social Security (or Railroad Retirement) payroll taxes paid by employers.

TAX CREDITS FOR EMPLOYERS ANALYSIS:

While employers initially have to foot the bill for the new sick and family leave benefits, at least some of the costs are paid back through refundable tax credits against the 6.2% Social Security (or Railroad Retirement) payroll tax imposed on employers. The credits are, however, subject to certain restrictions and limitations.

For the new sick leave benefits, the credit is limited to \$511 per day for workers taking leave because they are sick or quarantined. The limit is \$200 per day for workers taking leave to care for another person or on leave because of an HHS-specified condition. The credit is further reduced by a 10-sick-days-per-worker limit.

For the expanded FMLA benefits, the credit is limited to \$200 per day, per employee. The credit also can't exceed \$10,000 in total for any worker.

Employers are also given additional payroll tax credits for group health plan costs for, and the 1.45% Medicare payroll tax on wages paid to, workers on coronavirus sick or family leave.

TAX CREDITS FOR SELF-EMPLOYED ANALYSIS:

Self-employed people are not left out in the cold. They receive refundable tax credits against the self-employment tax that are similar to those allowed for employers.

The sick leave credit is based on a self-employed person's "qualified sick leave equivalent amount." That amount is equal to (1) up to 10 days during the year that the person can't work for a reason that would entitle them to coronavirus-related sick leave if he or she were an employee, (2) multiplied by the lesser of:



- \$511 per day for people who are sick or quarantined, or \$200 per day for people caring for another person or on leave because of an HHS-specified condition; or
- 100% of a sick or quarantined person's average daily self-employment income for the year, or 67% of the average daily self-employment income for a person caring for another person or on leave because of an HHS-specified condition.

A self-employment tax credit is also be available for 100% of a person's "qualified family leave equivalent amount." That amount is equal to (1) up to 50 days during the year that the person can't work for a reason that would entitle them to coronavirus-related family leave if he or she were an employee, (2) multiplied by the lesser of:

- \$200; or
- 67% of the person's average daily self-employment income for the year.

Phase III

“Coronavirus Aid, Relief, and Economic Security Act or CARES Act” and specifically Division A of this Act called the “Keeping Workers Paid and Employment Act” – Senate Version (currently in House)

This bill is currently under consideration with passage expected soon. The proposed financial provisions of this Act include stimulus checks (“recovery rebates”) to taxpayers, creation of a small business interruption loan program under the Small Business Act, allow for tax favored “coronavirus-related” distributions from certain retirement plans of up to \$100,000, bailouts to severely distressed sectors of the economy (airlines, hospitality, etc.), extension of tax filing deadlines, and other minor financial related relief measures (student loans, aviation excise taxes relief, and charitable contributions modifications)

STIMULUS CHECKS ANALYSIS:

The proposed bill authorizes direct payments of \$1,200 per qualifying adult - \$2,400 for married couples filing jointly - and \$500 per child, a program that is projected to cost around \$250 billion. The cash disbursements in the new agreement would start to phase out for those with incomes of \$75,000 and above. Families at the bottom – those with no federal income tax liability – would receive less money, but no less than \$600. The legislation also includes about \$100 billion for hospitals and about \$250 billion to beef up state unemployment insurance programs

SMALL BUSINESS INTERRUPTION LOAN PROGRAM ANALYSIS:

The bill would expand eligibility for certain small businesses (those under 500 employees) to receive loans under the SBA 7(a) Loan Program.

Defines the covered loan period as beginning on March 1, 2020 and ending on December 31, 2020.

Defines eligible businesses as those businesses with 500 employees, unless the covered industry’s SBA size standard allows more than 500 employees.

Allows not for profit entities to be eligible for loans made under this Act.

Increases the maximum 7(a) loan amount to \$10 million through December 31, 2020 limited as follows:



MAXIMUM LOAN AMOUNT CALCULATION—During the covered period, with respect to any loan guaranteed under section 7(a) of the Small Business Act (15 U.S.C. 636(a)) for which an application is approved or pending approval on or after the date of enactment of this Act, the maximum loan amount shall be the lesser of the product obtained by multiplying—

the average total monthly payments by the applicant for payroll, mortgage payments, rent payments, and payments on any other obligations incurred during the 1 year period before the date on which the loan is made, except that, in the case of an applicant that is seasonal employer, as determined by the Administrator, the average total monthly payments for payroll shall be for the period beginning March 1, 2019 and ending June 30, 2019; **by 4**; or \$10,000,000.

Expands allowable uses of 7(a) loans to include payroll support, such as paid sick or medical leave, employee salaries, mortgage payments, utilities and any other debt obligations.

Provides delegated authority, which is the ability for lenders to make determinations on borrower eligibility and creditworthiness without going through all of SBA's channels, to all current 7(a) lenders who make these loans to small businesses and provides that same authority to lenders who join the program and make these loans.

For eligibility purposes, requires lenders to, instead of determining repayment ability, which is not possible during this crisis, to determine whether a business was operational on March 1, 2020, and had employees for whom it paid salaries and payroll taxes.

Does not allow a borrower who receives this loan for employee salaries, payroll support, mortgage payments, and other debt obligations to receive an SBA economic injury disaster loan (EIDL) for the same purpose or comingle funds from another loan for the same purpose.

Waives both borrower and lender fees for 7(a) loans.

Increases the government guarantee of 7(a) loans to 100 percent through December 31, 2020, at which point guarantee percentages will return to 75 percent for loans exceeding \$150,000 and 85 percent for loans equal to or less than \$150,000.

Allows complete deferment of 7(a) loan payments for not more than one year and requires SBA to disseminate guidance to lenders on this deferment process within 30 days.

Removes any statutory limitations on SBA's 7(a) lending authority through December 31, 2020.

LOAN FORGIVENESS

Provides a process by which borrowers who receive this loan to be eligible for loan forgiveness in an amount equal to the payroll costs incurred during the covered period and payments debt obligations that were incurred before the covered period for the period of March 1, 2020 through June 30, 2020.

The amount of the loan eligible for forgiveness will be reduced proportionally by the number of employees laid off during this period relative to the borrower's prior employment levels.

For the purposes of determining forgiveness amounts, payroll costs will exclude the compensation of any employees in excess of \$100,000 in annualized compensation and qualified sick leave and qualified family leave wages enacted by the Families First Coronavirus Response Act.

Lenders would verify payroll costs and payments made on debt obligations.



Forgiveness amounts would not be included in taxable income.

SBA EXPRESS LOAN

Increases the maximum loan for an **SBA Express** loan from \$350,000 to \$1 million through December 31, 2020, after which point the Express loan will have a maximum of \$500,000.

WAIVER OF PREPAYMENT PENALTY

Removes any prepayment penalties for loans made under this title on or before December 31, 2020.

UNITED STATES TREASURY PROGRAM MANAGEMENT AUTHORITY

Allows the Department of Treasury, in consultation with the SBA, and other Federal financial regulatory agencies, to establish a process by which lending institutions that are not currently authorized to offer SBA loan products are able to provide SBA small business interruption loans for the length of the Presidents national emergency declaration.

Allows Treasury to determine the eligibility criteria and terms for the lenders they approve to disseminate small business interruption loans and to write regulations outlining these criteria and terms.

TYPICAL SBA LOAN PROGRAM 7(A) LOAN APPLICATION DOCUMENT REQUIREMENTS:

Borrower Information

To begin the process, the small business owner will need to complete SBA Form 1919. This form must be completed by all associates of the business applicant as required on the form, to include all owners of 20% or more of the business, all officers and directors, managing members, any person hired to manage the day-to-day operations and any other person who is guaranteeing the loan.

Personal Background and Financial Statement

To assess a small business owner's eligibility, the SBA also might require that they complete the following forms:

- Statement of Personal History - SBA Form 912 (If required after completing Form 1919)
- Personal Financial Statement - SBA Form 413 (Not required, but available for lenders to use)

Business Financial Statement

To support a small business owner's application and demonstrate ability to repay the a loan, the following statements must be prepared:

- Year End Profit and Loss (P&L) Statement for the last three years
- Year End Balance Sheet for the last three years, including a detailed debt schedule
- Reconciliation of Net Worth
- Interim Balance Sheet
- Interim Profit & Loss Statements
- Projected Financial Statements that include month to month cash flow projections, for at least a one-year period.

Business Certificate/License

Small business owners will need to be able to provide the original business license or certificate of doing business when closing the loan. If the business is a corporation, stamp the corporate seal on the SBA loan application form. This information should be readily available to provide to the lender.



Loan Application History

Include records of any loans the small business owner may have applied for in the past.

Income Tax Returns

Include the business' signed federal income tax returns for the previous three years.

Resumes

Include personal resumes for each principal.

Business Overview and History

Provide a history of the business and its challenges. Include an explanation of why the SBA loan is needed and how it will help the business.

Business Lease

Include a copy of the business lease, or note for a landlord, giving terms of the proposed lease.



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