

SBA PROGRAM SUMMARY

Summary as of understanding of packages on April 24, 2020



The Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 provided the SBA an additional \$20M for SBA disaster assistance administrative expenses and deemed the coronavirus to be a disaster under the SBA's Economic Injury Disaster Loan (EIDL) program. This change made economic injury from the coronavirus an eligible EIDL expense.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) created the Paycheck Protection Program (PPP) to provide "covered loans" with a 100% SBA loan guarantee, a maximum term of 10 years, and an interest rate not to exceed 4% to assist small businesses, small 501(c)(3) nonprofit organizations, and small 501(c)(19) veterans organizations that have been adversely affected by COVID-19. The act also provides for loan deferment and forgiveness under specified conditions. The CARES Act provided \$349B for this program. The CARES Act added \$10B to the program for EIDL Emergency Grants (although this is ultimately new budget authority for the EIDL Loan Program). This is in addition to the \$1.1B of budget authority already in the financing account. Lastly, the CARES Act also provides an exception to hotel and restaurants (NAICS 72) such that physical locations with under 500 employees are also eligible for the PPP program.

Additional funding for these programs was provided on Friday April 24, 2020 in the Paycheck Protection Program and Health Care Enhancement Act. The PPP Loan program received \$321.3B in funding, of which \$310B will be given in loans, with \$60B marked for small, medium and community bank lenders. Additionally, the EIDL grants were expanded by \$10B and EIDL lending by \$50B. Levered, EIDL loans can provide up to \$350-\$400B in additional lending capacity.

| NAME | PAYCHECK PROTECTION PROGRAM | ECONOMIC INJURY DISASTER LOAN (EIDL) PROGRAM |
|-------------------------|--|---|
| Authority | SBA 7(a) | SBA 7(b) |
| Eligibility | Requires eligible borrowers to make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; they will use the funds to retain workers and maintain payroll, lease, and utility payments; and are not receiving duplicative funds for the same uses from another SBA program. | Must have been in business as of January 31, 2020. Eligibility determined solely by credit score or other measure of ability to repay. No tax documents are required. A prior bankruptcy does not disqualify applicants, but prior default on an SBA loan does. |
| Number of Employees | Must have been in operation as of 2/15/20. 500 or less; for hotels/restaurants 500 or less employees per physical location; includes sole proprietors/contractors/self-employed | 500 or less employees; includes sole proprietors/contractors/self-employed, ESOPs, cooperatives and tribal businesses |
| Term or Loan Period | 2 years* | Up to 30 years |
| Covered Period | February 15, 2020, through June 30, 2020. | January 31, 2020 to December 31, 2020 |
| Interest Rate | 1%* | 2.75% for non-profit entities; 3.75% for all others |
| Forgiveness | Yes** | No |
| Maximum amount of loan | The lesser of \$10M or 2.5 times the business's average total monthly payroll amount for prior 12 months as of the date of the loan application (plus the amount of any pre-existing EIDL loan an applicant wants to refinance). Seasonal employers have different payroll criteria. | \$2M or lesser amount based on ability to replay. Cap can be waived if employer accounts for a significant amount of an area's employment. |
| Uses | **Payroll expenses and employee salaries, mortgage interest, rent and utilities, interest on other debt in place prior to 2/15/2020 | Sick leave for employees, payroll, meeting increased costs due to COVID-19 disruptions to supply chain, rent/mortgage payments, utilities, repaying other obligations that cannot be met due to revenue loss.**** |
| Application Process | Through lending institutions*** | Online |
| Collateral Requirements | Waives collateral and personal guarantee requirements under this program. | For loans greater than \$200,000, a personal guarantee is required. SBA will not require real estate as collateral and any person with an interest in the company worth 20% or more must be a guarantor. |
| Deferment | Allows complete deferment of 7(a) loan payments for six months* and requires SBA to disseminate guidance to lenders on this deferment process within 30 days. | 12 months |
| Fees | Waives both borrower and lender fees for participation in the Paycheck Protection Program | No loan fees, guarantee fees or prepayment fees. |
| Other | Awaiting guidance on structure of payments for loan principal and interest that is not eligible for forgiveness.* | If borrower requests emergency grant, a maximum value of \$10,000, no repayment is required. If such a borrower gets a 7(a) PPP / EIDL loan subsequently, this amount is subtracted from the balance due to SBA. Emergency grant must abide by qualified uses above. Terms of loans are on a case-by-case basis.***** |

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* SBA provided guidance that is more specific than the bill's original language. In the bill, loan terms were for "up to 10 years." Further, the interest rate was "not to exceed 4%" and deferral periods were to be between six and 12 months. The table above reports the latest guidance from SBA's terms specifically.

** The maximum amount of a PPP loan available to each borrower is equal to the lesser of: (a) \$10M, or (b) 2.5 x its average total monthly payroll costs. A borrower of a PPP loan is eligible for loan forgiveness for amounts spent during the 8-week period after the origination date, subject to proper documentation. Eligible expenses include rent for leases signed prior to 2/15/2020, defined payroll costs (excluding prorated amount for individuals with compensation over \$100,000), mortgage interest, healthcare premiums/costs and utilities (that were in place prior to 2/15/2020). The forgiven amount cannot exceed the principal of the loan. The amount of the PPP loan forgiveness may be reduced if the borrower reduces the number of employees or salaries and wages (for employees with annual salaries less than \$100,000) during the 8-week period following the origination of the loan or if the borrower cuts compensation for employees earning under \$100,000 by 25%. However, this reduction penalty doesn't apply if the borrower reinstates its workforce count and salaries/wages by June 30, 2020. **SBA has provided guidance not in the legislation that 75% of the forgiven amount must be used for payroll due to the expected high demand for SBA PPP loans.**

*** Rather than requiring lenders to be SBA-approved as with 7(a) loans, all FDIC-insured, federal credit unions and farm credit institutions will be an eligible lender approved to make PPP loans.

**** Farmers are not eligible but agriculture-related entities are. Borrowers must maintain proof of how the loan proceeds were used for three years from the date of disbursement and cannot use the loan funds to expand their business, buy assets, make repairs to real estate or refinance long-term debt.

*****Borrowers who get PPP loans are not eligible to use the employee retention tax credit or the deferment of payment of employer payroll taxes until 2021 .