SMALL BUSINESS COMMITTEE REPUBLICANS

Small Business Guide to the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*

As of April 1, 2020

The *Coronavirus Aid, Relief, and Economic Security (CARES) Act* contains numerous provisions to help small business owners respond to financial difficulties related to the coronavirus (COVID-19). This guide provides a summary of the bill, resources for small business owners, and frequently asked questions.

Quick Links

Small Business Administration (SBA) Paycheck Protection Program

SBA District Offices, Resource Partners, and Other Local Assistance

COVID-19 Economic Injury Disaster Loans: 1-800-659-2955 (TTY: 1-800-877-8339), DisasterCustomerService@sba.gov

New lenders will need to submit their application to DelegatedAuthority@sba.gov to apply with the SBA.

U.S. Department of the Treasury Paycheck Protection Program

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Small Business Provisions in the *CARES Act*

Paycheck Protection Program and Loan Forgiveness

- The Paycheck Protection Program provides $350 billion for 100 percent federally-guaranteed loans for 8 weeks of assistance to small businesses, as well as 501(c)(3) and 501(c)(19) nonprofits (veterans' organizations). Sole proprietors, independent contractors, and other self-employed individuals are also eligible for these loans.
    - Loans can be forgiven when used for payroll costs, interest on mortgage obligations, rent, and utilities.
    - SBA-certified lenders and non-SBA lenders would be authorized to make Paycheck Protection loans. All lenders participating in the Paycheck Protection Program, including banks, credit unions, and other financial institutions will be moved to delegated authority which allows lenders to process loans quickly without SBA approval.
    - The Secretary of the Treasury would have authority to work with the SBA to expedite the approval process and bring new lenders into the program.
- Maximum loan amount for SBA Express loans, which require less documentation and less paperwork, is increased from $350,000 to $1 million through December 31, 2020.
- Automatic deferral payments for six months where the SBA pays principal, interest, and fees on all SBA loan products.

Entrepreneurial Development Programs

- Provides grants and funding to offer training, counseling, and assistance to small businesses affected by COVID-19.
    - $240 million in grants to SBA resource partners, including Small Business Development Centers and Women's Business Centers.
    - $25 million in grants for resource partner associations to provide online information and training.
    - $10 million in funding for the Department of Commerce Minority Business Development Agency's Minority Business Centers.
- Allows for federal grant funds appropriated to the State Trade Expansion Program (STEP) in FY 2018 and FY 2019 to remain available for use through FY 2021.
    - Allows for state STEP participants to be reimbursed for events cancelled due to COVID-19, so long as the reimbursement amount does not exceed their federal grant amount.

Emergency Economic Injury Disaster Loan (EIDL) Grants

- Expedites access to capital for small businesses who have applied for an SBA EIDL. Businesses could request an advance of up to $10,000 on the loan to provide covered leave, maintain payroll, and pay debt obligations.

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Walkthrough for Small Business Owners

Q: Is my business eligible for the Paycheck Protection Program?
A: Businesses, 501(c)(3)s, and 501(c)(19)s with less than 500 employees are eligible as well as sole proprietors, independent contractors, and other self-employed individuals. Businesses in certain industries can have more than 500 employees if they meet applicable SBA employee-based size standards for those industries. The SBA's affiliation standards are waived for small businesses in the hotel and food industries (click to confirm with NAICS code 72) and franchises in the SBA's Franchise Directory.

Q: How can I take advantage of the new Paycheck Protection Program?
A: Talk to your preferred lending partner (bank, credit union, other financial institution).

Q: What can loans be used for?
A: Payroll costs, group health care benefits, employee salaries, interest on mortgage obligations, rent, utilities, and debt obligations occurred before February 15, 2020.

Q: How much can I borrow?
A: The maximum loan amount is the lesser of $10 million or 2.5 times the average monthly payroll based on the prior year's payroll. Payroll costs are capped at $100,000 on an annualized basis for each employee.

Q: Can the entire loan be forgiven?
A: No, only the portion used for payroll, mortgage interest, rent, and utilities can be forgiven. Per Treasury's preliminary guidance, they are anticipating that 75% must be used on payroll costs.

Q: What do I need to apply?
A: You need to work with your lender to apply. A sample application can be found on Treasury's *CARES Act* webpage.

Q: What are the terms of the loan?
A: Per Treasury's preliminary guidance, the interest rate is a 0.50% fixed rate. All payments are deferred for 6 months; however, interest will continue to accrue over this period. The loan is due in 2 years, but can be paid earlier without prepayment penalties or fees.

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Paycheck Protection Program and Loan Forgiveness Explainer

Top Line

- The *CARES Act* creates a new loan program within the Small Business Administration's (SBA) 7(a) Loan Program
- The new loan will be 100 percent guaranteed by the SBA and have an interest rate of 0.5 percent, per Treasury's preliminary guidance.
- The loan forgiveness tool allows businesses that maintain payroll over an 8 week period as defined by headcount, to request forgiveness on a Paycheck Protection loan used on payroll costs; mortgage interest; rent; and utilities.

Paycheck Protection Loans

The *CARES Act* creates a new loan product within the Small Business Administration's 7(a) Loan Program. Both existing SBA lenders and new lenders brought into the program with the assistance of the Department of the Treasury will be able to offer these loans to eligible small businesses.

The new loan will be 100 percent guaranteed by the SBA and have an interest rate of 0.5 percent, per Treasury's preliminary guidance. The new loan will be able to cover payroll costs including costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation); rent (including rent under a lease agreement); utilities; and, interest on any other debt obligations that were incurred before February 15, 2020.

Businesses, 501(c)(3)s, and 501(c)(19)s (veterans' organizations) with less than 500 employees will be eligible for this new loan. Additionally, sole proprietors, independent contractors, and self-employed individuals will also be eligible. Moreover, small businesses in the hospitality and food industry with more than one location could also be eligible at the store and location level if the store employs less than 500 workers. This means that each store location could be eligible. Lastly, if your franchisor appears in the SBA's National Franchise Directory, assistance will extend down to the franchisee at the store or location level.

The maximum loan amount will be the lesser of $10 million dollars or 2.5 times the average monthly payroll based on the prior year's payroll.

To increase speed and turnaround time within this new loan product, all lenders will have delegated authority. Delegated authority allows the lender to process, close, and service a loan without SBA review.

All borrower and lenders fees for Paycheck Protection loans will be waived. Additionally, the Credit Elsewhere Test, collateral requirements, and all requirements for personal guarantees under Paycheck Protection loans will be waived.

Built into the new Paycheck Protection loans will be automatic deferrals of principal, interest, and fees for six months.

A small business can obtain a new Paycheck Protection loan and an SBA Economic Injury Disaster Loan (EIDL) so long as they cover different items. Flexibility is granted through no prepayment penalties on either the Paycheck Protection loan or the EIDLs and refinancing is available as long as an EIDL was received after January 30, 2020.

Loan Forgiveness

The *CARES Act* also establishes a loan forgiveness tool that allows businesses that maintain payroll continuity over an 8 week period as defined by headcount, to request forgiveness on a Paycheck Protection loan used on payroll costs; mortgage interest; rent; and utilities.

The amount forgiven will be reduced proportionally by any reduction in employees. The amount will also be reduced by the reduction in pay of any employee beyond 25 percent.

The loan forgiveness program provides flexibility for businesses that re-hire workers that were previously laid off.

To receive loan forgiveness, a business will have to work with a lender to justify their payroll was maintained through documentation. Lenders will be held harmless on decisions of eligibility and SBA will purchase the loan after the lender grants approval.

$350 billion dollars will be provided for the Paycheck Protection Program and Loan Forgiveness.

COVID-19 Resource Guide
Small Business Administration (SBA) Actions

As of March 27, 2020

- On March 10, 2020, the SBA announced 6 month deferrals for 7(a) loans, 504 loans, and Microloans and 3 month deferrals for secondary market loans through 7(a).
- On March 23, 2020, the SBA implemented automatic deferment on existing SBA disaster loans. Deferments through December 31, 2020 will be automatic. This ensures borrowers of home and business disaster loans do not have to contact the SBA to request deferment.
- On March 25, 2020, the SBA published updated guidelines on its Express Bridge Loan Pilot Program which aims to assist small businesses as they await full disaster loan disbursements. Express Bridge loans with a maximum loan amount of $25,000, can be delivered to small businesses through SBA lenders. The March 25th guidance expands the program nationwide.

Declared Disaster Areas

Small business owners in all U.S. states and territories are currently eligible to apply for a low-interest loan due to coronavirus (COVID-19). For questions, please contact the SBA disaster customer service center at 1-800-659-2955 (TTY: 1-800-877-8339), e-mail disastercustomerservice@sba.gov, or visit sba.gov.

Coronavirus Aid, Relief, and Economic Security (CARES) Act
Small Business Frequently Asked Questions

Q1. Will 501(c)(6) organizations receive assistance under the *CARES Act*?

A1. No, the Senate expands eligibility to 501(c)(3) and 501(c)(19) (veterans' organizations) nonprofits only.

Q2. Can a borrower double dip between an Economic Injury Disaster Loan (EIDL) and a new Paycheck Protection loan under the Senate proposal?

A2. Businesses will be able to receive an EIDL and a Paycheck Protection loan if they go for different things. For example, a business can receive an EIDL for working capital and a Paycheck Protection loan for payroll assistance. Additional flexibility is granted through no prepayment penalties on EIDLs and no prepayments penalties on Paycheck Protection loans. Additionally, a refinancing option has been included.

Q3. Under the *CARES Act*, the maximum loan amount intended for payroll and operating costs for small businesses is the monthly payroll times 2.5 with a maximum cap of $10 million. 2.5 times the average monthly payroll is not nearly enough money for small businesses.

A3. The Senate is keeping the calculation at 2.5 times monthly payroll, earmarked to payrolls, etc. over 8 weeks, because that is what the $350 billion will cover.

Q4. In the Paycheck Protection Program, are nonprofits eligible, are churches eligible, are chambers of Commerce and physician practices eligible?

A4. Nonprofits and churches designated as 501(c)(3) may participate in the Paycheck Protection Program. Physician practices are eligible, regardless of how they are structured (i.e. as an S-Corp, C-Corp, or sole proprietorship). Unfortunately, most trade associations (therefore most Chambers) are organized at 501(c)(6)s. They are not eligible to participate under the *CARES Act*.

Q5. In the Paycheck Protection Program, can small businesses hire back employees they already fired and still have the loans forgiven? What is the hire back date?

A5. Yes. There is flexibility in the program to allow businesses to rehire folks they have laid off and still qualify. They simply need to be in business before February 15th and show the lender they have had employees on the payroll.

Q6. What are the exact steps for small businesses to access the capital? Where can I find the information? Is there a video or other form of assistance?

A6. The best place to go is your lender. The SBA and Treasury will be producing documents and instructional materials, but that takes time and your lenders would be the fastest way to get information.

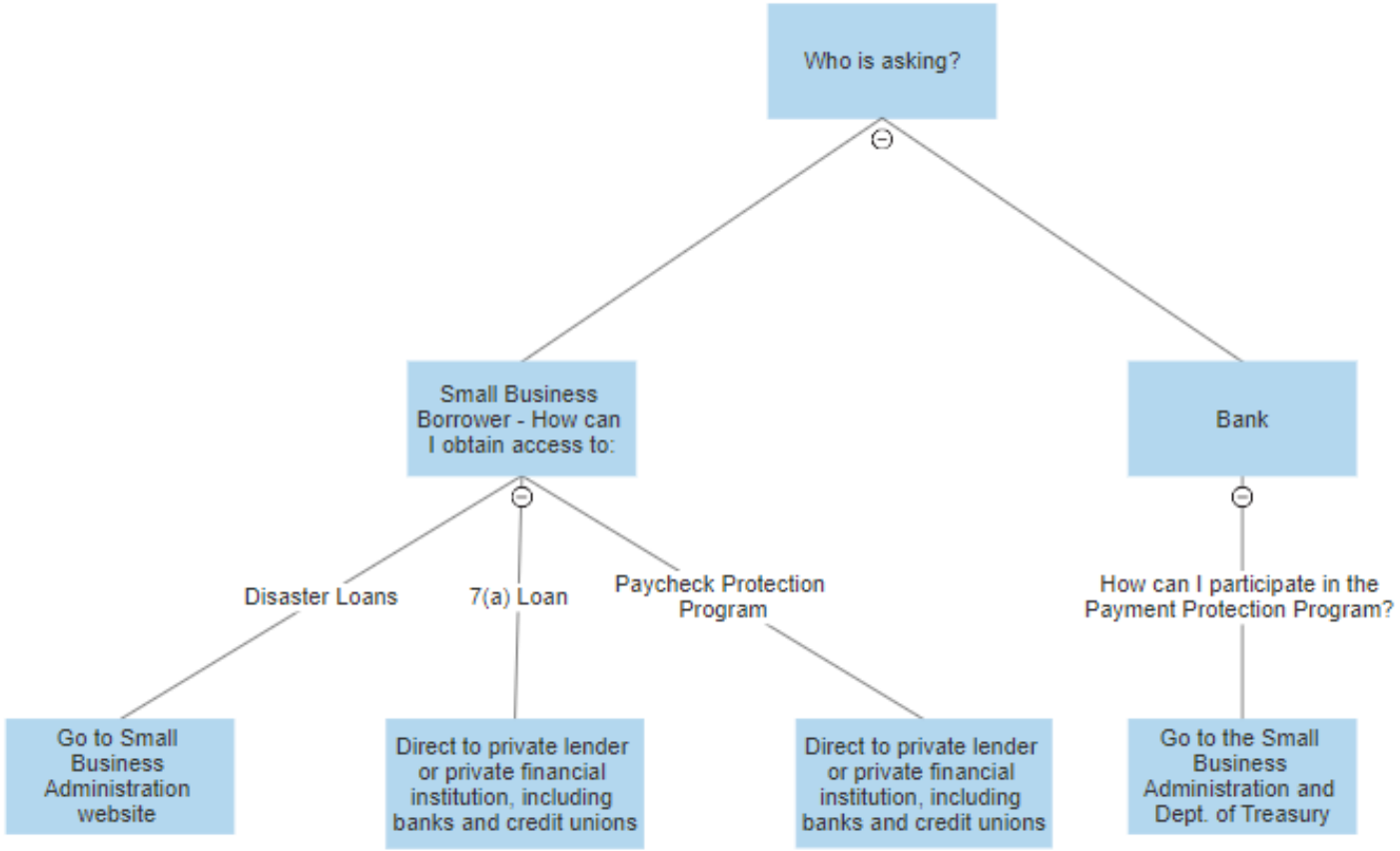
Q7. How quickly will business be able to access loans?

A7. We are working with the SBA on capacity issues, including onboarding new lenders. The SBA is assuring us they will have things in place and that they are ready to stand up all the requirements within the *CARES Act* as quickly as possible. We will continue to press them to move expediently.

Q8. Is Planned Parenthood eligible for SBA loans or grants?

A8. Planned Parenthood is not eligible for SBA grants or loans. Originally, the Senate bill contained a clause that excluded nonprofits that received Medicaid from participating in the Paycheck Protection Program. This exclusion clause was ultimately removed from the *CARES Act*. The final bill permits nonprofits to participate in SBA's loan programs, provided they have 500 employees or less. Additionally, the final bill binds nonprofits to the SBA's affiliation rules. Planned Parenthood is a nonprofit and is subject to the 500 employee cap and the affiliation rule. They would have more than the allowable 500 employees, therefore Planned Parenthood and their affiliates are not eligible for SBA grants or loans.

Q9. We have businesses in our district that employ more than 500 employees across multiple locations. Would those individual locations be eligible for the Paycheck Protection Program?

A9. You are generally eligible for the Paycheck Protection Program if you are a for profit business, 501(c)(3), or 501(c)(19) (veterans' organization) nonprofit with less than 500 employees. SBA affiliation rules apply. There are a few exceptions. Businesses in the accommodation and food service industry (assigned a North American Industry Classification System code beginning with 72) with more than one location could also be eligible at the store and location level if the store employs less than 500 workers. This means that each store location could be eligible. Previous Senate drafts required the accommodation and food service industry business to have less than $500 million in gross receipts to be eligible. This $500 million requirement has been removed from the *CARES Act*. Lastly, if you're a franchisor and you appear in the SBA's National Franchise Directory, assistance will extend down to the franchisee at the store or location level.

Decision Tree for Small Businesses and Financial Institutions