SMALL BUSINESS COMMITTEE REPUBLICANS

Paycheck Protection Program and Loan Forgiveness

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 4 percent. 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 a refinancing option has been included.

Loan Forgiveness

The *CARES Act* also establishes a loan forgiveness tool that allows businesses that maintain payroll continuity from February 15, 2020 through June 30, 2020 as defined by headcount, to request forgiveness on a Paycheck Protection loan used on payroll costs; mortgage interest; rent; and utility pay over an 8 week period.

The amount forgiven will be reduced proportionally by any reduction in employees retained compared to the prior year and reduced by the reduction in pay of any employee beyond 25 percent of their prior year compensation.

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.