

# CARES ACT

SBA LOAN  
PRESENTATION

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## Paycheck Protection Program

CARES Act adds “Paycheck Protection Program” (“PPP Loans”) to SBA’s 7(a) Loan Program

Focus of program is to encourage borrowers to retain and/or rehire employees (75/25)

Up to 100% may be forgiven

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# Paycheck Protection Program

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- PPP Loan applications to be submitted by June 30, 2020 (or before funding exhausted)
  
- Applications to traditional lenders (go to relationship lenders first ... best if you have a credit relationship)
  - Be organized. Complete application and calculations in advance. Organize back up material ("Payroll Costs," balance sheets, 990s, Officer's Certificates) ... ***make it easy for lender to say "yes"***

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# Paycheck Protection Program


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## General Information

- Traditional 7(a) requirements streamlined
  - 100% guaranteed by SBA and allows lenders to rely on borrower certifications to determine eligibility, use of loan proceeds, loan amount and eligibility for loan forgiveness
  - But ... still "Know your customer" requirements
  - Some banks balking because worried rush to disburse funds could lead to liability under "know your customer" provisions of Bank Secrecy Act
  - Another issue is loan covenants and debt service coverage ratios in existing loan documents

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## Paycheck Protection Program




- For-profit businesses or non-profit organizations with fewer than 500 employees
- Sole proprietors or independent contractors
- In operation on February 15, 2020

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## Paycheck Protection Program

- If organization engaged in illegal activity
- Household employers (nannies, housekeepers) (not businesses)
- If 20% of organization owned/controlled by bad guys

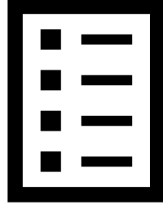


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# Paycheck Protection Program

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- Business owned or controlled by persons who defaulted on SBA or other federal loan



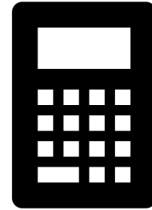
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# Paycheck Protection Program

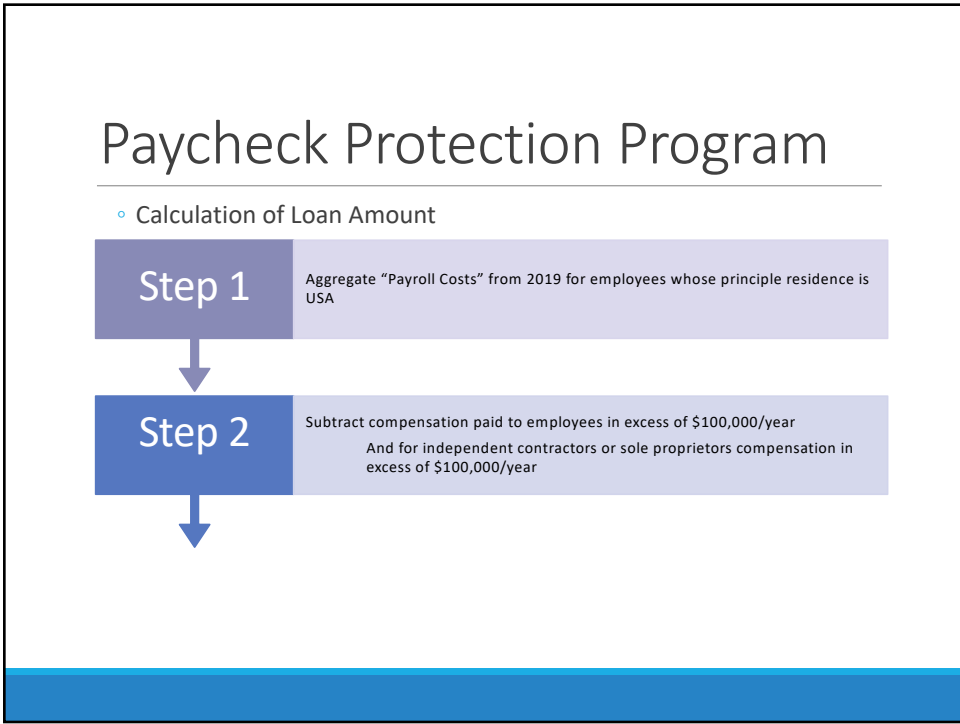
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How much can borrower borrow

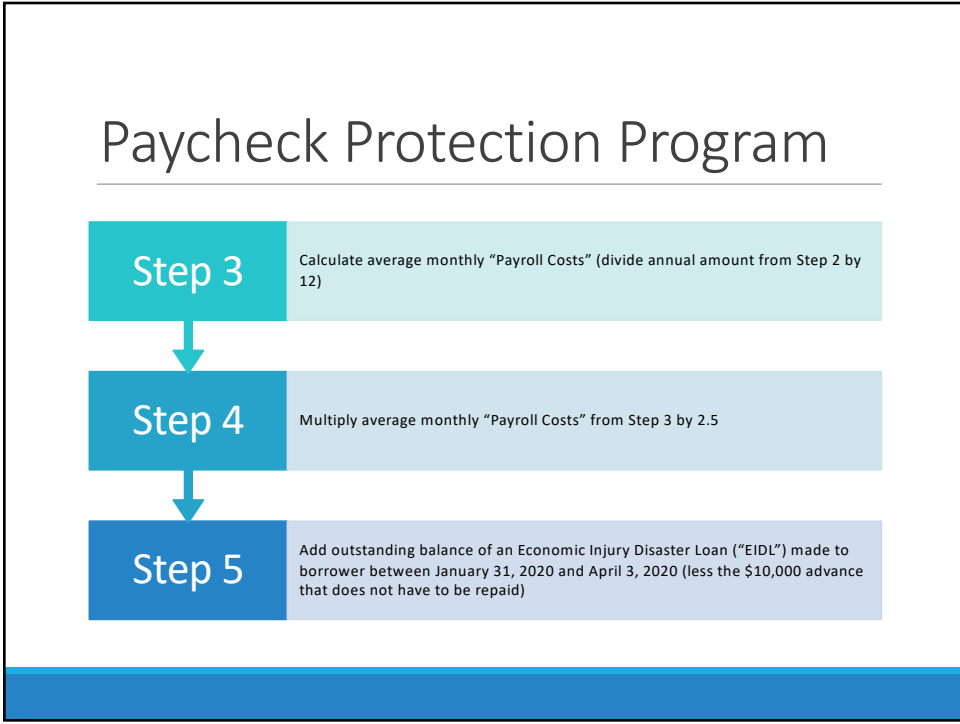
- Lesser of \$10 million or amount calculated using payroll based formula (generally, 2.5 x monthly "Payroll Costs")



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# Paycheck Protection Program

- Example #1 (No employees over \$100,000)

◦ Annual "Payroll Costs"		\$240,000
◦ Annual "Payroll Costs"/12		<u>\$240,000/12</u>
◦ Average Monthly "Payroll Costs"	\$ 20,000	
◦	<u>x 2.5</u>	
◦ Maximum Loan Amount		\$ 50,000

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# Paycheck Protection Program

- Example #2 (with some employees over \$100,00)

◦ Annual "Payroll Costs"		\$1,500,000
◦ Subtract Comp over \$100,000	<u>\$ 300,000</u>	
◦ Adjusted Annual "Payroll Costs"		\$1,200,000
◦ Adjusted Annual "Payroll Costs"/12	<u>\$1,200,000/12</u>	
◦ Average Monthly "Payroll Costs"	\$ 100,000	
◦	<u>x 2.5</u>	
◦ Maximum Loan Amount		\$ 250,000

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## Paycheck Protection Program

- Example #3 (None over \$100,00 + \$25,000 EIDL)

◦ Annual "Payroll Costs"		\$120,000
◦ Annual "Payroll Costs"/12		<u>\$120,000/12</u>
◦ Average Monthly "Payroll Costs"	\$ 12,000	
◦	<u>        x 2.5</u>	
◦	\$ 30,000	
◦ \$25,000 EIDL - \$10,000 Grant	<u>        \$ 15,000</u>	
◦ Maximum Loan Amount		\$ 45,000

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## Paycheck Protection Program

- What are "Payroll Costs"
  - Compensation to employees residing in USA (salary, wages, commissions or similar compensation)
  - Cash tips or equivalent (based on employer records of past tips or reasonable, good-faith employer estimate of tips)
  - Payment for vacation, parental, family, medical or sick leave
  - Allowances for separation or dismissal
  - Payments for employee benefits like group health coverage (including insurance premiums) and retirement
  - Payment of state and local taxes assessed on compensation
- And ... for independent contractors/sole proprietors, wages, commissions, income or set earnings from self-employment

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# Paycheck Protection Program

- What's exclude from "Payroll Costs"
  - Compensation for non-resident employees
  - Compensation in excess of \$100,000/year
  - Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020 (including employee's and employer's share of FICA, and income taxes required to be withheld)
  - Qualified sick and family leave wages for which a credit is allowed under the Families First Coronavirus Response Act

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# Paycheck Protection Program



Borrower may only apply for 1 PPP Loan, so consider applying for maximum amount



Interest Rate = 1% per annum



Maturity = 2 years from funding



No P+I payments for 6 months from loan funding

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## Paycheck Protection Program

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What can PPP Loan proceeds be used for

- “Payroll Costs” (75%)
- Costs related to group health benefits during periods of paid sick, medical or family leave, and insurance premiums
- Mortgage interest payments
- Rent payments

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## Paycheck Protection Program

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- Utility payments
- Interest payments on other debt (incurred before February 20, 2020)
- Refinancing EIDL loan made between January 31, 2020 and April 3, 2020

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# Paycheck Protection Program

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## Limits on use of PPP Loan proceeds



- 75% of loan proceeds must be used for “Payroll Costs”
- 8 weeks after loan funding
- If SBA ever looks, they will look at jobs, so use loan proceeds to retain/rehire roughly same number of FTE

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# Paycheck Protection Program

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## How is PPP Loan forgiven

- If borrower uses all loan proceeds in 8 weeks from funding, for forgivable purposes, and 75% of loan proceeds to “Payroll Costs” and employee compensation levels are maintained (FTE and do not give raises)
- For purposes of loan forgiveness, borrower will have to document proceeds used “Payroll Costs” in order to determine amount of forgiveness

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## Economic Injury Disaster Loan ("EIDL")

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CARES Act expands  
existing EIDL  
Program to entire  
country

Program is up and  
running

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## Economic Injury Disaster Loan ("EIDL")

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- Application directly to SBA (not through lenders), with minimal documentation
- Application evaluated on credit score (not on calculated ability to repay)
- Focus of program is helping businesses with operational issues after a disaster

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## Economic Injury Disaster Loan ("EIDL")

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Loan Proceeds can be used for paid leave, maintaining payroll, increased costs due to supply chain disruption, mortgage payment, lease payment or other debt obligations



If used with PPP Loan, do not double-dip, use EIDL funds for things other than "Payroll Costs"

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## Economic Injury Disaster Loan ("EIDL")

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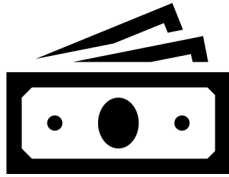
If borrower secured EIDL between January 21, 2020 and April 3, 2020, and used proceeds for "Payroll Costs" EIDL has to be refinanced with PPP Loan

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## Economic Injury Disaster Loan ("EIDL")

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EIDL up to \$2 million



Applicants receive first \$10,000 as an emergency cash grant within 3 days of application

- Cash grant forgiven, even if loan application denied

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## Economic Injury Disaster Loan ("EIDL")

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- Loans up to \$2 million with term of 30 years
- Interest 3.73% per annum for for-profits, 2.75% for non-profits
- First month's P+I payment deferred 1 year

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## Economic Injury Disaster Loan ("EIDL")

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- Loans smaller than \$200,000 approved without personal guarantee
- No loan fees, or prepayment fees
- No collateral

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## Economic Injury Disaster Loan ("EIDL")

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To Apply for EIDL (Note: This webpage has been changing)

- Application made directly to SBA
- Application Page has been changing. Link to application on cover page of application form

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