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COVID-19 RESPONSE

CARES Act: Loan Provisions
The Paycheck Protection Program ("PPP") establishes a loan program for small businesses whose operations have been disrupted by COVID-19. These emergency loans are designed to incentivize small business not to lay off workers and to rehire employees when business conditions stabilize by covering payroll and other costs.

- Employers can receive a loan for the lesser of 2.5 times their average monthly payroll costs for 2019, or $10 million.
- The loan has a maximum term of 10 years and a maximum interest rate of 4%.
- The loan can be used for salaries, employee benefits, rent, utilities, and interest on a mortgage or other debts.
- Payments of interest and principal on the loans may be deferred for six months to one year, beginning after the forgiveness period described below.

Currently, payroll costs are being defined as:

Payroll costs = included payroll – excluded payroll.

Included payroll is:
- Payment for health insurance benefits, including insurance premiums
- Payment of any retirement benefits
- Payment or state or local tax assessed on compensation
- Sum of any compensation that is wage, commission, income, net earnings, etc.

Excluded payroll is:
- Any compensation in excess of $100,000 for any one employee
- Payroll taxes, income taxes
- Qualified sick leave or family leave wages for which credit is allowed under the Family First Coronavirus Response Act

Applicants will be required to provide proof of payroll costs, but the business does not need to show that it is unable to get credit elsewhere and there is no personal guarantee required. Loans are guaranteed by the Small Business Administration, but business owners should apply through their bank or credit unions.

Loan Forgiveness
Any incurred costs or payments made for payroll, mortgage interest, rent, and utilities during the first eight weeks of the loan can be forgiven. This means that any cash from the loan used for these sorts of business operating expenses is forgiven. The forgiven amount is not considered cancellation of debt income and is excluded from gross income. However, not more than 25% of the forgiven amount may be used for non-payroll costs. In the alternative, 75% of the amount that is forgiven must be used for payroll.

Loan forgiveness is also prorated by the average number of fulltime employees during the first eight weeks of the line divided by the number of fulltime employees for the same time period the year before. A reduction in the salary or wages paid to employees may also reduce the amount eligible for forgiveness.

Loan Structure
Since the loan will have a forgiveness component to it, the SBA has decided to structure the loan as a two-step process: Step 1 being the initial loan comprised of maximum loan amount, including the forgiveness portion; and Step 2, the remaining balance after the forgiveness.

Step 1 loan terms will consist of:
- Fixed interest rate of 0.5%
- 2 year term
- Requires interest only payments
- First six months automatically deferred (interest will accrue)

Step 2 loan terms will consist of:
- Max interest rate of 4.0%
- Max 10-year term

Other Loan Options
Small business owners may apply for Economic Injury Disaster Loan (EIDL) through the Small Business Administration. SBA disaster loans have a maximum amount of $2 million, with a 3.75% interest rate. Unlike the Paycheck Protection Program loans, business owners apply for a disaster loan through the SBA at www.sba.gov.

You can apply for both an EIDL and a PPP loan, so long as the funds are used for different expenses. For example, if your funds from the PPP loan are applied for the use of payroll and utilities, then your EIDL loan could be used for supply chain interruptions, or to pay obligations that cannot be met due to revenue loss.