Understanding Business Loan Options under the Coronavirus Stimulus Package

GRASSI & CO (May 12, 2020)

Here are some of the most commonly asked questions our advisors are hearing and answering.

Grassi's Emergency Loan Consultants [2] are advising small business and nonprofits on their eligibility, options and strategies when applying for COVID-19 business loans available under the Coronavirus Aid, Relief and Economic Security (CARES) Act. Here are some of the most commonly asked questions our advisors are hearing and answering.

Q. What loan options are available to my business under the CARES Act?

A. There are two major loan programs included in the CARES Act for employers with less than 500 employees. One is the Paycheck Protection Program, which allows for loans up to $10 million that can be forgiven taxfree if employers meet certain employee retention requirements.

The Act also infused an additional $10 billion into the Small Business Administration's Economic

Injury Disaster Loan (EIDL) program, which will allow for faster delivery of the low-interest, long-term emergency loans always available through the SBA during a crisis. These loans are capped at $2 million each.

Q. Who is eligible for the PPP loans?

A. Business concerns and nonprofits with less than 500 employees (based on the SBA's aggregation rules) are eligible. For this purpose, employees are defined as individuals employed on a full-time, part-time or other basis. Independent contractors, sole proprietorships and self-employed individuals are eligible, provided they meet specific criteria in the bill.

Q. Are there any exceptions for businesses with 500 or more employees?

Yes, NAICS code 72 employers and franchisees may have more than 500 employees total and remain eligible, as long as they have fewer than 500 employees per location. Also, if your NAICS previously had fewer than 500 employees under old SBA guidance, you may be eligible.

Q. How do I begin the PPP loan application process?

A. You can apply at any FDIC bank or credit union, but contacting your current banker or lender first is recommended. The application can be found here [3].

Most lenders will want to see documentation of your 2019 annual gross revenues and payroll costs and recent IRS 941 filings. Your December financials and payroll reports will provide this information.

Q. How is the amount of PPP loans calculated?

A. The program sets the maximum loan size at 2.5 times an employer's average monthly payroll costs (subject to a $10 million cap). Payroll costs include salary and other similar cash compensation and employer portion of healthcare benefits, retirement benefits and state and local payroll taxes. Payments made to independent contractors should not be included in this calculation. Salary and other similar cash compensation are subject to a pro-rata annualized cap of $100,000.

Q. Are there any certifications required for the PPP Loan?

A. Yes, the recipient will need to make a good faith certification that the uncertainty of the current economic conditions make the loan request necessary, acknowledge that the funds will be used to retain workers and maintain payroll or make lease and utility payments, among others.

Q. What can I use the proceeds of the PPP loan for?

A. During the covered period (February 15, 2020 through June 30, 2020) the loan proceeds may be used for payroll costs, group health care benefits, salaries, commissions, or similar compensations, payments of interest on mortgage obligations (not principal), rent, utilities, and interest on any other debt obligation that was incurred before the covered period. No more than 25% of the proceeds should be allocated to nonpayroll costs.

Q. Are there any prepayment or other fees associated with PPP loans?

A. There will be no fees associated with the loan and no prepayment penalty for any payments made in advance.

Q. What if I have an existing credit facility?

A. A company cannot be denied for a PPP loan based on “credit elsewhere” (meaning availability of credit from non-federal sources). However, it is recommended that a borrower dialogue with existing creditors before submitting an application, since many credit facilities explicitly prohibit debt from other parties.

Q. What are the terms of the PPP loan if I am approved?

A. The loan will have a maturity of 2 years from the date of loan origination and a fixed interest rate of 1.0%. The first payment of principal and interest will be deferred 6 months to 1 year.

Q. How can I get my PPP loan forgiven?

A. Your business will need to apply for loan forgiveness, including the necessary documentation of employee retention requirements.

Loans may be forgiven if businesses use the money to pay for payroll costs, mortgage interest, rent and/or utilities. The forgiven amount would be equal to the amount actually paid for these expenses during the 8 weeks following disbursement of the loan.

Forgiveness will be scaled back if the business has a reduction in employees or a 25% or more reduction in total salaries or wages. Reductions in workforce, salaries and wages that occur from February 15, 2020 to April 26, 2020 will be disregarded for purposes of reducing the forgiveness amount, as long as the reductions are eliminated by June 30, 2020.

Q. What are the provisions of the SBA's Economic Injury Disaster Loans (EIDLs)?

A. The EIDL program allows for loans of up to $2 million at 3.75% interest (2.75% for NFPs) for companies with less than 500 employees. The loans are offered with up to a 30-year term. Unlike the PPP loans, they are not forgivable and require collateral and traditional underwriting.

Q. Are any immediate funds available from the SBA?

A. Upon application for an EIDL, the SBA allows for up to a $10,000 advance, which does not need to be paid back regardless of whether the loan application is approved or denied.

Q. Can my EDIL loan be refinanced in the PPP loan?

A. A loan made under the SBA's EIDL program on or after January 31, 2020, may be refinanced as part of a covered loan under this new program as soon as these new loans are made available.

For answers to more of your questions on the emergency funding available to your business during the COVID-19 pandemic, please contact our Emergency Loan Consulting [2]professionals at response@grassicpas.com [4].

This information is subject to change when further guidance is released from the U.S. Small Business Administration.

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