

Navigating the CARES Act: *Funding Opportunities for Your Business*

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COVID-19 Outbreak & Federal Response

- PHASE I – *The Coronavirus Preparedness & Response Supplemental Appropriations Act (H.R. 6074)*
 - \$8.3 billion emergency funding for coronavirus vaccine research & development
- PHASE II – *The Families First Coronavirus Response Act (H.R. 6201)*
 - \$104 billion for paid sick leave, unemployment benefits, & nutrition assistance
- PHASE III – *The Coronavirus Aid, Relief & Economic Security (CARES) Act (H.R. 748)*
 - \$2 trillion stimulus package affecting all sectors of the U.S. economy

Small Business Opportunities in the CARES Act

1. Individual Direct Payments

- \$1,200/person (\$2,400/couple filing jointly) + \$500 per dependent child
 - max income for individual \$75,000 (\$150,000 for couples filing jointly)

2. Tax Credit Separate from SBA Loans

- Up to 50% of wages for each employee (up to \$10,000) for each quarter

3. Unemployment Benefits

- Up to \$600/week for up to 4 months

4. SBA Loans

- **Economic Injury Disaster Loans (EIDLs)**
 - \$10 billion in direct disaster assistance: \$10,000 advance grant on loans up to \$2 million
- **Paycheck Protection Program (PPP) & Small Business Interruption Loans**
 - \$349 billion for SBA 7(a) loans but new eligibility criteria, up to \$10 million, & forgivable

Paycheck Protection Program (PPP): Eligibility

- PPP is available to businesses, sole proprietorships, independent contractors, self-employed individuals & nonprofit organizations that:
 - Have less than 500 employees or
 - Have more than 500 employees:
 - meet the NAICS Code for industry-specific size standard (alone & with affiliates)
 - Size & affiliation standards are waived for:
 - hotel & food service industries, SBA-approved franchises, & SBIC-funded businesses
- Non Profits are eligible-501(c)(3), (c)(19) and tribal business enumerated
- PPP waives SBA's standard Credit Elsewhere requirement
- PPP offers only 1 loan per business & remains open until June 30, 2020

Businesses Ineligible for PPP

Same as SBA's Traditional List

- Financial businesses
- Passive businesses
- Foreign businesses
- Gambling businesses
- Private clubs
- Life insurance companies
- Religious businesses

PPP Terms - Same for All Borrowers

- Non-recourse loans, no collateral, nor personal guarantee required
- Borrowers must make a good faith pledge to retain employees
- 2.5x monthly payroll costs, \$10 million max
 - Most businesses: average monthly payroll calculation for 2019
 - “payroll costs” – 7 categories and three excluded categories
- PPP is designed to provide 8 weeks of COVID-19 emergency cash-flow

What can PPP loan money be used for?

- Forgivable uses are enumerated
 - If used for these specific job-protection purposes, then the loan becomes a grant
- If funds are used for other purposes
 - The loan remains a loan similar to the traditional SBA 7(a) loan capped at 4% interest rate with a 10-year maturity date.
 - PPP funds will not be used to pay the emergency sick leave that the Phase II bill requires in exchange for a tax credit

PPP Loan Forgiveness

- **PPP loans are forgivable IF used only for statutorily enumerated uses:**
 - **Payroll costs**, defined as:
 - Salary (capped at \$100,000), wages, cash commission, or tips
 - Employee benefits payments including costs for vacation, parental, family, medical, or sick leave, retirement benefits, & group healthcare benefits & insurance premiums,
 - **Interest on mortgage obligations** (incurred before Feb. 15, 2020)
 - **Rent** (under lease agreements in force before Feb. 15, 2020)
 - **Utilities** (service began before Feb. 15, 2020)
 - **Interest on other debt obligations** (incurred before Feb. 15, 2020)

SBA's PPP Application released on 3/31/2020 notes expected surge demand & anticipates that **non-payroll costs will be limited to 25% of forgivable use**

Warnings re: Forgiveness

- Forgivable loan amount reduced ratably if:
 - FTE staff headcount & payroll are not maintained, or
 - Wages for employees making less than \$100,000 in 2019 are cut by more than 25%
- Borrowers that change their FTE numbers & salary levels have until 6/30/2020 to restore them & avoid reduction in PPP loan forgiveness
- Borrowers must request forgiveness from their loan servicer with documentation to certify the truth of their:
 - Number of FTE employees & pay rates during the 8-week period
 - Payments on mortgages, leases, utilities
 - The forgiven loan amount was used to keep employees & make those payments

PPP Loan Terms for Portions Not Forgiven

- Interest Rate: statutory max of 4% but:
Treasury guidance (3/31/2020): 0.5% fixed rate
SBA Interim Final Rule (4/2/2020): 1% fixed rate
- Deferral: First payment auto-deferred for 6 months & up to 1 year
- Maturity Date: 10-year max by statute but:
Both the Treasury guidance & SBA Final Rule set a 2-year maturity rate
- No prepayment penalties or fees
- No collateral nor personal guarantee

CARES Act also provides funding to pay 6-months worth of all existing 7(a) and other SBA-guaranteed loan products

How to Apply for a PPP Loan

- Go to Your Local Lender:
 - April 3, 2020 – small businesses & sole proprietorships
 - April 10, 2020 – independent contractors & self-employed individuals
- PPP & Other Standard 7(a) Documentation Required:
 - SBA Form 2483 – PPP-Specific Form released on 3/31/2020
 - SBA Form 1919 – Borrower Information
 - SBA Form 912 – Statement of Personal History
 - SBA Form 413 – Personal Financial Statement
 - Business Financial Statements & Others the Loan Officer May Request:
 - P&L Statement, Projected Financial Statements, Ownership & Affiliations, Business Certificate/Licenses, Loan Application History, Income Tax Returns, Resumes, Business Overview & History, Business Leases

PPP Lenders

- More than 1,000 SBA-Approved Lenders Nationwide & More to Come
- Local Lender Benefits:
 - SBA guarantees 100% of the outstanding balance & waives all processing fees
 - Lenders do not collect fees from applicants, but SBA compensates lenders:
 - 5% on loans under \$350,000 (1% to agent)
 - 3% on loans between \$350,000 & \$2 million (0.5% to agent)
 - 1% on loans greater than \$2 million (0.25 to agent)
 - Agents are paid from lender fees
 - *e.g.*, attorneys, accountants, loan brokers, or anyone authorized to prepare an application employed by the applicant or who assists a lender with originating & disbursing the SBA loans
- Local SBA-Approved Lenders:
 - *e.g.*, Hibernia Bank, Hancock Whitney, Iberia Bank, *et al.*

SBA Economic Injury Disaster Loan (EIDL)

Disaster Loans are SBA's Only Direct Lending Program

- Immediate need for working capital up to \$2 million including fixed debts, payroll, accounts payable & other bills
 - Not to be used for expanding facilities, paying dividends/bonuses, relocation, or refinancing long-term debt
- Advance emergency grant of \$10,000 remains a grant even if EIDL application is ultimately denied; dispersed within 72 hours
- Approval based on borrower's credit score or other "alternative appropriate measures"
- Interest rate: 3.75% for small businesses & 2.75% for nonprofits

Conclusion: EIDL vs. PPP

- Immediate \$10,000 grant advance
- \$2 million max for following uses:
 - Paying employees & maintaining payroll to retain employees
 - Meeting increased costs to obtain materials unavailable due to interrupted supply chains
 - Rent or mortgage payments
 - Repaying unmet obligations due to revenue losses
- Apply through 12/31/2020
- Keep in mind:
 - If borrower receives *both* an EIDL grant & a PPP loan, the grant will be deducted from forgivable PPP total
- \$10 million max
- Forgivable fund uses:
 - Payroll costs, including salary, wages, cash commission or tips
 - Costs for employee leave, healthcare benefits & insurance premiums
 - Rent or mortgage (interest only)
 - Utilities
 - Interest on other debt
- Apply through 6/30/2020
- Keep in mind:
 - PPP supersedes other SBA loans