Details Regarding the CARES Act Business Loans

In reaction to the ongoing pandemic, Congress is continuing to pass legislation with the anticipation of rebounding our struggling economy. Late last week, Phase 3 of this effort was passed by Congress and signed by President Trump. This latest piece of legislation is referred to as the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). CARES is one of the largest stimulus bills to get signed and impacts individuals, businesses and certain non-profits. It includes tax law changes, expanded unemployment benefits, and business loans, some of which have forgivable features. As guidance and regulations for CARES become available, we will provide continued updates of the key provisions.

Business loans have caught the attention of many in recent days and this is an area we wanted to further clarify. The U.S. Small Business Administration (SBA) is administrating loans under economic injury disaster loans (EIDL) and through payroll protection loans (PPL) provided by CARES. Although both programs target small businesses and nonprofits (generally less than 500 employees), there are certain key provisions for each of these loans that do vary significantly, and we wanted to detail those for you.

Application Process

Applicants will apply directly to the SBA through sba.gov for loans under EIDL. Local banks who are considered an approved SBA lender will work directly with applicants under PPL to streamline processes and negotiate certain aspects, such as the setting of an interest rate (not to exceed 4%) and possible deferral of principal and interest payments.

Collateral and Personal Guarantees

EDIL programs generally require collateral for loans exceeding $25,000 and personal guarantees kick in after $200,000. PPL programs are currently not requiring collateral or personal guarantees.

Maximum Loan Amounts

Up to $2 million can be advanced under EDIL based upon eligibility. PPL calculates loan amounts based upon the lesser of $10 million or a formula using 2.5 times the average monthly payroll costs using a trailing 12 months. In the case of seasonal employers or newly created entities, the PPL loan amount can be calculated using an allotted threshold as defined in CARES. Although loan funds can be used for mortgage interest, interest on pre-existing debt, rent and utility payments, these costs are not used in calculating the loan amount. PPL does allow refinancing of loan amounts previously provided by EDIL related to COVID-19. The amount refinanced would have an effect on the amount forgiven and you would need to be careful to not use the funds for the same purpose. For example, if you used loan proceeds from EDIL to cover March payroll you cannot use this same payroll for a PPL loan. However, any sick leave or family medical leave for which a credit has been received per Phase 2 of Coronavirus Relief Act is excluded from this payroll cost computation. Businesses are not allowed to receive duplicate benefits based upon any of the benefits provided through the various phases of the Coronavirus Relief Act.

Loan Forgiveness

Loan forgiveness is only provided for under PPL. The amount of the loan forgiven is based upon the costs incurred and payments made during the eight-week period beginning on the date of the loan for payroll costs (which excludes payroll taxes but includes health insurance and retirement benefit payments), mortgage interest payments, and interest payments on existing debt, rent and utility payments. The amount forgiven can be further reduced based upon employee terminations or reductions in salary or wages in excess of 25% during the eight-week period beginning on the date of the loan. Payroll costs only consider up to $100,000 per employee on an annualized basis. Borrowers will need to apply for loan forgiveness with the respective lenders within 60 days of the application. Further guidance will assist in complying with these attributes.

Interest Rate and Loan Terms

Loans granted under EDIL will generally incur interest at 3.75% (2.75% for nonprofits) and are payable over 30 years or less. Loans exceeding the forgiveness amount for PPL are payable over 10 years or less and incur interest of up to 4% or a lesser amount based upon the lender.

Deadline to Close Loans

Loans under the EDIL program would need to close prior to December 31, 2020 and loans granted under PPL would need to close prior to June 30, 2020.

Cray Kaiser is available to discuss the various loans available to you via all phases of recent legislation, including the CARES Act, and how the complexities of the loan terms may impact you. Please call us at 630-953-4900.