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Government Affairs

CARES Act – COVID-19 Small Business Administration Relief

Small Business Relief During the COVID-19 Outbreak

Congressional efforts on COVID-19 relief for small businesses administered by the Small Business Administration (SBA) has focused on expanding existing programs and streamlining processes to expedite the distribution of funds. Specifically, Congress has focused on the 7(a) loan program and Economic Injury Disaster Loan (EIDL) program. Overall, the third COVID-19 relief package provides $377 billion in relief to small businesses and their workforce. The bill also requires SBA to defer all principal, interest, and fees on all existing SBA loan products, including 7(a), Community Advantage, 504, and Microloan programs, for six months to provide relief to small businesses negatively affected by COVID-19. In total, through the three COVID-19 packages, nearly $400 billion has been provided to small businesses. In the third package, $454 billion is provided in loans, loan guarantees and other financial instruments to the most severely impacted businesses/industries.

Businesses seeking to determine whether they are an eligible small business according to the SBA can do so using their North American Industry Classification System (NAICS) code here.

Businesses can be matched with a lender for non-disaster loans using the SBA's lender match tool here.

Businesses can apply for EIDLs here.

Traditional 7(a) SBA Loans

Paycheck Protection Program

The third COVID-19 package creates a new $350 billion "Paycheck Protection Program" within the existing 7(a) loan program. The new program provides eight weeks of cash-flow assistance through 100 percent federally guaranteed loans to small employers who maintain their payroll during this emergency. If the employer maintains its payroll, the portion of the loan used for covered payroll costs, interest on mortgage obligations, rent, and utilities will be forgiven.

The new program is retroactive to February 15, 2020 to help bring workers who may have already been laid off back onto payrolls. The size of the loans will be 250 percent of an employer's average monthly payroll. The maximum loan amount is $10 million. Covered payroll costs include salary, wages, and payment of cash tips (up to an annual rate of pay of $100,000); employee group health care benefits, including insurance premiums; retirement contributions; and covered leave. Both lenders and borrowers are provided with fee waivers, an automatic deferment of payments for one year, and no prepayment penalties.

Specifically, the new program would apply to:

- Small employers with 500 employees or fewer, as well as those that meet the current Small Business Administration (SBA) size standards;
- Self-employed individuals; and
- Certain nonprofits, including 501(c)(3) organizations and 501(c)(19) veteran organizations, and tribal business concerns with under 500 employees.

Instead of getting relief directly from SBA, loans would be available immediately through more than 800 existing SBA-certified lenders, including banks, credit unions, and other financial institutions, and SBA is required to streamline the process to rapidly bring additional lenders into the program.

Express Loan Program

The Express Loan Program provides loans for no more than seven years with an option to revolve, which provides borrowers with a great deal of flexibility in terms of repayments and re-borrowing. There is a turnaround time of 36 hours for a decision on an application under this program and the eligible uses are the same as a 7(a) loan. The third COVID-19 package raises the maximum loan amount under this program to $1 million from $350,000.

Economic Injury Disaster Loan Program

Small business owners in all U.S. states and territories are currently eligible to apply for a low-interest loan due to COVID-19. The third relief package expands eligibility for access to Economic Injury Disaster Loans (EIDL) to include:

- Tribal businesses, cooperatives, and employee stock ownership plan (ESOPs) with fewer than 500 employees;
- Any individual operating as a sole proprietor or an independent contractor during the covered period (January 31, 2020 to December 31, 2020); and
- Private non-profits.

EIDLs can be worth up to $2 million and the interest rate is 3.75% for small businesses and 2.75% for nonprofits. EIDLs are long-term loans of up to 30 years and are distributed through SBA's network of 68 district offices who manage the disaster loan programs.

Businesses must be "creditworthy" and loans that exceed $25,000 must be secured by collateral to the extent possible. In many cases, creditworthiness is determined by a business' credit repayment history, credit score, financial standing, available collateral, debt income ratio, and more. If collateral cannot be offered, assets of businesses owners pledged as collateral may be necessary. EIDL funds may be used for:

- Pay fixed debts;
- Payroll;
- Accounts payable;
- Employee sick leave;
- Other bills that cannot be paid due to the disaster's impact;
- Funds may not be used to;
    - Refinance debts incurred prior to the disaster event;
    - Make payments on other loans owned by another federal agency or the SBA;

- Pay tax penalties or non-tax criminal/civil fines;
- Repair physical damage; or
- Pay dividends or other disbursements to owners or partners except as related to their performance of services for the business.

The package also waives 1) personal guarantees on advances and loans below $200,000, 2) the requirement that an applicant needs to have been in business for the 1-year period before the disaster, and 3) the credit elsewhere requirement (SBA requires the personal resources of any owner of 20 percent or more of the small business applicant be reviewed).

Additionally, the package allows for an advance on an EIDL of $10,000 within three days to maintain payroll, provide paid sick leave, and to service other debt obligations.