

COVID-19 Relief Package to Include Small Business Loans

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On March 25, 2020, the U.S. Senate unanimously voted to advance legislation titled Coronavirus Aid, Relief, and Economic Security Act (the 'CARES Act') to respond to individuals, families, and businesses affected by the coronavirus.

[Ed. Note: The CARES Act was signed into law on March 27, 2020.]

Funds will be allocated to expand unemployment insurance and to assist the healthcare industry, transportation industry, education, farmers and ranchers, emergency personnel and law enforcement, childcare services, and many others. The provisions of the CARE Act that are targeted towards small businesses will include, but not be limited to, the following measures:

- **Paycheck Protection Loans ("PPL")** to cover payroll costs, interest costs, rent, and utilities;
- **Economic Injury Disaster Loan Grants** to provide an 'immediate' advance of up to \$10,000.00 of working capital to businesses that have applied for Economic Injury Disaster Loans in response to coronavirus; and
- **Entrepreneurial Development Programs**

The best starting place for a business seeking one of these loans is the business's lender. The Small Business Administration ("SBA") will provide 100% federally backed loans to eligible small businesses and is currently working to onboard new lenders to its program. These loans are accessed directly through lenders and will not require SBA pre-approval. The goal is to be ready to fund loans as quickly as possible if and when this legislation is passed into law.

General Loan Terms:

With some exceptions, businesses eligible for these loan programs will include those with no more than 500 total employees (regardless of full time or part-time basis) and businesses of a size standard in the industry based upon SBA standards. For certain businesses within the hospitality industry that have more than one location, the total employee count may be assessed per location, to allow larger businesses to participate.

In addition to small businesses, sole-proprietors, independent contractors, and other self-employed individuals

are eligible for these loans. Non-profits and churches designated as 501(c)(3) organizations may also participate in the PPL program, while 501(c)(6) organizations are not eligible.

The maximum loan amount is capped at \$10 million and will equal to 2.5 times the business's monthly payroll costs. Loan funds can be obtained and forgiven when used to cover payroll costs, interest on mortgage obligations, rent, and utilities. Under the PPL program, businesses can re-hire employees they had initially laid off, as long as they can demonstrate to the lender that they were in business before February 15, 2020, and that the employee was formerly on the payroll.

Lenders will not require collateral or any personal guarantee as security for these loans, and the interest rate cannot exceed 4%. Additionally, prepayment penalties are not allowed. The only instance in which a lender will have recourse against any individual, shareholder, member, or partner of a borrower would be when the loan proceeds are used for an unauthorized purpose. The typical SBA requirement that borrowers not be able to obtain credit elsewhere will also be waived.

In addition to this new loan program, certain applications can be made for loan payment deferments, extensions for maturity dates, etc., on most existing SBA loans during this COVID-19 declared emergency period.

Additionally, grant money will be made available to loan applicants and certain small businesses, such as:

Economic Injury Disaster Loan Grants:

Businesses who have applied for an Economic Injury Disaster Loan in response to coronavirus may, during the 2020 fiscal year, request an advance of up to \$10,000 (which does not have to be repaid, even if the loan application is later denied) to provide covered leave, maintain payroll, and pay debt obligations. Advances are to be made by the lender within three days of an application for such advance.

Entrepreneurial Development Programs:

Grants and funding will be available through this program to offer training, counseling, and assistance to small businesses affected by a coronavirus. Examples of recipients will include Small Business Development Centers, Women's Business Centers, Minority Business Centers, and resource partner associations that provide online information and training. Under this program, participants in the State Trade Expansion Program (STEP) can gain access to federal grant funds appropriated to them for fiscal years 2018 and 2019 to remain available for use through fiscal year 2021. STEP participants will also be reimbursed for events cancelled due to coronavirus, as long as the reimbursement amount does not exceed the participant's federal grant amount.

Next Steps:

It is anticipated that the House will vote on this legislation today or tomorrow and that the President would sign it into law immediately thereafter. We will share more guidance and information about this new relief package as soon as it becomes available.

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