The Coronavirus Aid, Relief and Economic Security (CARES) Act signed into law on Friday, March 27, provides various options for small and midsize businesses facing liquidity challenges from the COVID-19 crisis. This has been updated to reflect PPP revisions issued on June 3, 2020, and information on the Main Street Lending Program from the Federal Reserve on June 8, 2020.

Effective April 23, 2020, Congress has approved an additional $310 billion in funding for the Paycheck Protection Program, $50 billion for the EIDL program and $10 billion for emergency EIDL grants.

Updated May 14, 2020 to reflect a new repayment safe harbor date of May 18, 2020.

Option one: U.S. Small Business Administration (SBA) Economic Injury Disaster Loan Assistance (EIDL) program

The Coronavirus Preparedness and Response Supplemental Appropriations Act enacted on March 6 expanded the U.S. Small Business Administration (SBA) Economic Injury Disaster Loan Assistance (EIDL) program to provide SBA loans to qualified small businesses.

Amount available
Qualifying business can receive up to $2 million in loans to be used for working capital and ordinary expenditures. The actual amount available to any business is tied to its economic injury from COVID-19.

Rates
Interest rates are 3.75% for small businesses and 2.75% for not-for-profit organizations. EIDL loans are not forgivable.

Eligibility
An eligible small business is determined by the number of employees and average annual sales, with different standards per industry. Most manufacturing companies with 500 or fewer employees and most non-manufacturing businesses with average annual receipts under $7.5 million can qualify. There are exceptions by industry.

Loans under this program are available to borrowers that can show they are unable to meet their existing financial obligations as a result of the COVID-19 crisis. Cannabis businesses, casinos and racetracks are among the businesses that are not eligible.

How to apply
EIDLs are applied for directly with the SBA and funded by the SBA.

Option two: Paycheck Protection Program (PPP)

The Paycheck Protection Program created through the Coronavirus Aid, Relief and Economic Security Act (CARES Act) expands SBA support for businesses with loans of up to $10 million. This program is administered by the SBA through its 7(a) lending program under which the SBA guarantees loans made by banks to qualifying borrowers.

Amount available
Businesses that have been in existence for at least a year can obtain the lesser of 2.5 times their average monthly payroll for U.S. employees (cash compensation of any employee above $100,000 must be subtracted) for the previous 12 months, plus any amount refinanced from the Economic Injury Disaster Loan (EIDL) assistance OR $10 million. Entities not in existence for the previous 12 months can use their average monthly payroll for the period from January 1, 2020, through February 29, 2020. Funds can be used to cover payroll costs or employee benefits, certain operating costs and interest on debt obligations.

Rates
Interest is fixed at 1% for a five-year loan. Payments of both principal, interest and fees will be deferred until the date on which the amount of forgiveness determined under section 1106 of the CARES Act is remitted to the lender.

Provided a company retains existing employees at or near current salary levels, the debt will be forgiven to the extent that proceeds are used in a 24-week period following loan origination for the following (with respect to the items below, no more than 40% of the loan forgiveness may be attributed to non-payroll costs):

- Payroll costs
- Interest payments made on any mortgage incurred prior to February 15, 2020;
- Payment of any lease in force prior to February 15, 2020; and
- Payment on any utility for service before February 15, 2020.

April 23 clarification by SBA:
Any borrower who applied for a Paycheck Protection Program loan prior to the issuance of FAQ by the SBA on April 23, 2020, which explains that the borrower’s good faith certification must take into account their current business activity and their ability to access other sources of liquidity sufficient to support their operations in a manner that is not significantly detrimental to their business, may repay the loan in full by May 18, 2020 and be deemed by SBA to have made the required certification in good faith.

The amount forgiven will be reduced by a formula that takes into consideration any reduction of workforce or wages with limited exceptions outlined in the forgiveness form and the Paycheck Protection Flexibility Act. Certain documentation is required to be retained, provided as proof and certified to include with an application for loan forgiveness as detailed in Section 1106(e).

Proceeds from any advance up to $10,000 on an EIDL loan will be deducted from the loan forgiveness amount.
Eligibility
Eligible recipients must have 500 or fewer employees whose principal place of residence is in the United States and have been in operation on February 15, 2020. The borrower must certify in good faith that current economic uncertainty makes this loan request necessary to support ongoing operations. Businesses must meet one of the following requirements:

- 500 employees or fewer, or;
- Meet applicable employee size standards for their North American Industry Classification System (NAICS), or;
- 500 employees or fewer by location for those in the accommodation and food service industry as defined by their NAICS code or for any business acting as a franchise that is assigned a franchise identifier code by the Small Business Administration;
- Sole proprietors, independent contractors and other self-employed individuals, including so-called gig economy workers;
- Charitable tax-exempt organizations (including religious organizations), described in section 501(c)(3) of the Internal Revenue Code, and veterans organizations, described in section 501(c)(19), are eligible to participate in the program. However, other tax-exempt organizations (e.g., those described in sections 501(c)(4), (5), and (6)) are not eligible to participate.

The SBA website offers a size standards tool to assist in determining whether a business is small.

How to apply
Applicants must submit SBA Form 2483 with payroll documentation to a participating lender. The Small Business Administration has a network of at least 1,800 approved lenders that process small business loans and intends to add more of them. If your bank is not an SBA-approved lender, you can contact the SBA to find one.

Option three: Main Street Lending Program
Small and midsized businesses can receive loans through one of three facilities in the Main Street Lending Program.

Amount available
Loans in the Main Street New Loan Facility (MSNLF) range from a minimum $250,000 to a maximum that is the lesser of $35 million or an amount that when added to the borrower’s existing outstanding and undrawn available debt does not exceed four times the borrower’s 2019 adjusted EBITDA.

Loans in the Main Street Priority Loan Facility (MSPLF) range from a minimum $250,000 to a maximum that is the lesser of $50 million or an amount that when added to the borrower’s existing outstanding and undrawn available debt does not exceed six times the borrower’s 2019 adjusted EBITDA.

Loans in the Main Street Expanded Loan Facility (MSELF) range from a minimum of $10 million to a maximum of $300 million or an amount that when added to the borrower’s existing outstanding and undrawn available debt does not exceed six times the borrower’s 2019 adjusted EBITDA.

Rates
Loan terms are a five-year maturity at a rate of LIBOR (1 or 3 month) plus 300 basis points. Principal payments are deferred for two years and interest payments are deferred for one year (unpaid interest will be capitalized). Principal amortization is 15% at the end of the third year, 15% at the end of the fourth year and a balloon payment of 70% at maturity at the end of the fifth year. Prepayment is permitted without penalty.

Eligibility
Businesses with up to 15,000 employees or up to $5 billion in 2019 annual revenues are eligible (employees and revenues must be aggregated with the employees and revenues of affiliated entities). The business must have been established prior to March 13, 2020 and be created or organized in the United States with significant operations in and the majority of its employees in the United States.

Borrowers must certify that they have a reasonable basis to believe that, as of the date of the Main Street loan (or the upsizing of a loan in the Expanded Loan Facility) and after giving effect to such loan (or upsizing), it has the ability to meet its financial obligations for the next 90 days and does not expect to file for bankruptcy during that time period.

They must also certify that they will make commercially reasonable efforts to maintain payroll and retain employees during the term of the loan. Borrowers must also attest that they will not cancel or reduce any existing lines of credit to the Main Street Lending Program lender or any other lender, and that loans obtained through the Main Street Lending Program will not be used to repay pre-existing loan balances except to the extent that the debt or interest payment is mandatory and due. Borrowers in the MSPLF may, at the time of Main Street loan origination, refinance existing debt owed to a lender that is not the Main Street lender.

Borrowers will need to follow compensation, stock repurchase and capital distribution restrictions outlined in section 4003(c) (3)(A)(ii) of the CARES Act, with the exception that an S corporation or other pass-through entity may make distributions to the extent reasonably required to cover its owners’ tax obligations in respect of the entity’s earnings. Finally, borrowers must certify eligibility, including in light of the conflicts of interest prohibition in section 4019(b) of the CARES Act.

Businesses that have taken a Paycheck Protection Program loan are eligible to participate in the Main Street Lending Program. Paycheck Protection Program loans that are not yet forgiven are included as outstanding debt when calculating the maximum amount that can be borrowed in the Main Street Lending Program.

How to apply
Applicants should connect directly with their lender.

If you have questions about any of these programs, please contact your RSM relationship leader for more information.