CARES Act expands access to loans for small and midsize businesses

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 SBA guidance issued on April 6, 2020, and information on the Main Street Lending Program from the Federal Reserve on April 9, 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.

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 two-year loan. Payments of both principal and interest will be deferred for six months following the date of loan disbursement; however, interest will accrue during that period.

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 an eight–week period following loan origination for the following (with respect to the items below, no more than 25% 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 7, 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. 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 the Main Street Lending Program.

**Amount available**

Eligible businesses can get new loans of a minimum of $1 million up to a maximum of $25 million. The maximum loan size is the lesser of $25 million or an amount that, when added to the borrower’s existing outstanding and committed but undrawn debt, does not equal four times that borrower’s 2019 EBITDA.

**Rates**

Loan terms are a four-year maturity at an adjustable rate of SOFR plus 250–400 basis points. Amortization of principal and interest will be deferred for one year. Prepayment is permitted without penalty.

**Eligibility**

Businesses with up to 10,000 employees or up to $2.5 billion in 2019 annual revenues are eligible. Businesses must be created or organized in the U.S. with significant operations and a majority of their employees in the U.S.

Borrowers must attest that they require financing due to the exigent circumstances presented by the COVID–19 pandemic, and that, using the proceeds of the loan, they will make reasonable efforts to maintain payroll and retain employees during the term of the loan. They 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 or refinance pre-existing loan balances. Finally, they will need to follow compensation, stock repurchase and capital distribution restrictions outlined in section 4003(c)(3)(A)(ii) of the CARES Act and 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.

**How to apply**

Applicants should connect directly with their lender.

For those with existing loan, banks are able to add to the size of an outstanding term loan issued to a business customer prior to April 8, 2020, rather than initiate a new loan, through the Main Street Expanded Loan Facility (MSELF). The maximum loan size is the lesser of $150 million, 30% of the borrower’s existing outstanding and committed but undrawn bank debt, or an amount that, when added to the borrower’s existing outstanding and committed but undrawn debt, does not exceed six times that borrower’s 2019 EBITDA.

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