Alert

COZEN O'CONNOR

Small Business Administration's COVID-19 Loan Programs

The federal government has announced various emergency loan programs to assist eligible small businesses in mitigating the financial impact of the COVID-19 crisis. We have outlined the material features and considerations of two of the main programs below.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides the following federal emergency loan programs generally available to small businesses meeting the SBA's eligibility requirements. Businesses can apply for loans under both of these programs, but proceeds from both programs cannot be used to cover the same economic loss (no double dipping). It is possible that the SBA may further tighten the availability of funding under both programs.

Economic Injury Disaster Loans

The Economic Injury Disaster Loan (EIDL) program provides loans of up to $2 million, at an interest rate of 3.75 percent and a term of up to 30 years, to cover ordinary and necessary operating expenses and reductions in working capital incurred in connection with the COVID-19 pandemic, including fixed debts, payroll, accounts payable, and other bills that cannot be paid because of the disaster's impact.

Applicants seeking emergency funds may request a "Grant Advance" of up to $10,000, payable three days after application to the EIDL program, to pay eligible and imminent operating costs related to the crisis, such as increased costs of materials, payroll, or rent or mortgage payments. An applicant is not required to repay any amount of the Grant Advance, even if such applicant is subsequently denied an EIDL.

Personal guarantees are not required for loans up to $200,000, and collateral may need to be pledged for loans greater than $25,000.

Applicants can apply electronically directly through the SBA website.

Paycheck Protection Program

The Paycheck Protection Program (PPP) provides a loan (capped at $10 million) for up to 2.5 times an applicant's monthly average payroll costs over the last year, which can be used to cover qualified payroll costs (including payments for salary and wages (capped at $100,000 per employee), health care and retirement benefits, family and medical leave, and state and local compensation on taxes), rent and utilities in place as of February 15, and interest payments on mortgages incurred before February 15. PPP loans are available until June 30. PPP loans will be made at an interest rate of 0.5 percent and have a term of two years. Loan payments will be deferred for six months, but interest will continue to accrue.

Borrowers are eligible for loan forgiveness on the defined costs mentioned above that are paid during the eight week period following the PPP loan origination date. Loan forgiveness on the total amount of these costs will be reduced if a borrower decreases the amount of salaries and wages by more than 25 percent or decreases the number of employees, compared to past benchmarks as defined by the PPP. However, a borrower has until June 30 to restore full-time employment and salary levels for changes made between February 15 and April 26. It is anticipated that not more than 25 percent of the forgiven amount may be for non-payroll costs. Any amounts forgiven are not federally taxable.

No personal guarantees and no collateral are required to receive a PPP loan, however borrowers must self-certify that funds will be used in accordance with the program's requirements.

Applicants will apply through SBA-certified private lenders, beginning April 3, 2020. Treasury has

Steven J. Dickinson

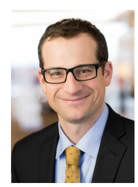
Co-Chair, International Practice

sdickinson@cozen.com
Phone: (612) 260-9051
Fax: (612) 260-9080

Martin T. Schrier

Chief Strategy Partner

mschrier@cozen.com
Phone: (305) 704-5954
Fax: (786) 220-0209



James F. Van Orden

Member

jvanorden@cozen.com
Phone: (215) 665-4625
Fax: (215) 665-2013

Related Practice Areas

- Corporate

provided a Borrower Information Sheet and the SBA has provided a sample PPP Application Form (which may be subject to change). All lending decisions regarding PPP loans will be made by the lender approving or servicing your loan, without input from the SBA.