

OVERVIEW

SBA EMERGENCY LOANS

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, signed into law on March 27, 2020, allocates \$349 billion to help small businesses keep workers employed amid the current circumstances they are encountering. The CARES Act provides funding for the Paycheck Protection Program, modifies the existing Emergency Injury Disaster Loan (EIDL) program and provides immediate loan payment relief for current SBA 7(a) borrowers. The following is an overview of the key components of and eligibility requirements of these programs:

► 7(a) Loan Payment Relief

SBA will pay the principal, interest, and any associated fees owed on 7(a) loans as follows:

- Existing borrower not on deferment: six months beginning with the next payment due on the loan;
- Existing borrower on deferment: six months of payments beginning with the next payment due on the loan after the deferment period; and
- New borrower: six months of payments beginning with the first payment due on the loan, but only for new loans made within the first six months starting from the date of enactment. (3/27/2020).

► Economic Injury Disaster Loan (EIDL)

- Eligibility: Businesses with 500 employees or fewer.
- Up to \$2 million can be provided to help meet financial obligations and operating expenses that could have been met if the disaster did not occur.
- Loans can be made based solely on credit scores.
- The interest rate on EIDLs will be 3.75% interest rate for small businesses.
- The first twelve payments will be deferred and not become due until one year after the original disbursement. Interest does accrue during this time.
- The term of these loans will be up to 30 years.

► Economic Injury Disaster Loan (EIDL) Advance

- For those that apply for the Economic Injury Disaster Loan (EIDL), an advance of up to \$10,000 will be provided to small businesses within several days of applying for the loan.
- The advance does not need to be repaid, even if the grantee is subsequently denied an EIDL.
- Funds can be used to provide paid sick leave to employees, maintain payroll, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rent and mortgage payments.
- Eligibility: Advances are available to small businesses, sole proprietors, independent contractors, tribal businesses, as well as cooperatives and employee-owned businesses in operation on January 31, 2020.

► Small Business “Paycheck Protection Program” (PPP)

- A new \$349 billion lending program under the existing SBA 7(a) program. The SBA guarantee of PPP loans will be 100% through the end of 2020. PPP loan payments will be deferred for a minimum of six and up to 12 months. Loans will be administered through local and regional banks; any federally regulated bank may become an SBA lender for this purpose. The Department of the Treasury will issue regulations for these loans quickly.
- The interest rate will not exceed 4%. Rate is currently fixed at 0.5%.
- Eligibility:
 - Small businesses as defined by SBA size standards, generally up to 500 employees, but up to 1,500 employees depending on the sector as certain sectors are based on revenue.
 - Sole proprietors, the self-employed, and independent contractors.
- Regulatory Streamlining:
 - SBA’s standard “no credit elsewhere” test is waived.
 - No personal guarantee or collateral required.
 - No additional fees will be applied to these loans.
- Size of loans: Up to \$10 million. Loan amount is based on recent payroll costs, compensation paid to individuals, including the self-employed. Compensation in excess of \$100,000 a year to any individual is excluded.
- Requirements: The business must certify the loan will be used to retain workers, maintain payroll, make mortgage or lease payments, and pay utilities.
- Loans may be forgiven, up to an amount equaling eligible payroll, mortgage interest, rent and utility cost, incurred during the 8 week period starting from loan origination. Compensation in excess of \$100,000 a year to any individual will not qualify for forgiveness.
 - Loan forgiveness is reduced by layoffs or pay reductions in excess of 25%.
 - Loan forgiveness is not treated as taxable income.

Comparison

OVERVIEW	EIDL	EIDL ADVANCE	PPP
Lender	SBA	SBA	SBA 7(a) Approved Lender
Maximum Loan Amount	\$2MM	Advance of up to \$10,000	2.5x average monthly payroll costs capped at \$100K per employee, maximum of \$10MM per borrower
Application Deadline	December 31, 2020	December 31, 2020	June 30, 2020
Eligible Borrowers	Businesses that meet the SBA size standards	<ul style="list-style-type: none"> - 500 or fewer employees - Sole proprietorship (with or without employees or as independent contractors) - Cooperative of 500 or fewer employees - ESOP (500 or fewer employees) - Tribal small business concern (500 or fewer employees) 	<p>Businesses with <500 employees</p> <p>Businesses in NAICS 72 with <500 employees per individual location.</p>
Use of Proceeds*	<ul style="list-style-type: none"> - Payroll - Rent - Utilities - Interest on debt occurred - Accounts payable - Some bills that could have been paid had the disaster not occurred 	<ul style="list-style-type: none"> - Payroll - Rent - Utilities - Interest on debt occurred - Accounts payable - Some bills that could have been paid had the disaster not occurred 	<ul style="list-style-type: none"> - Payroll - Interest on mortgage payments (principal or prepayments excluded) - Rent - Utilities - Interest on any debt incurred prior to Feb. 15, 2020
Collateral	No collateral for loan amounts up to \$25,000	N/A	Waived
Personal Guarantee	No personal guarantee for loan amounts up to \$200,000	N/A	Waived
Affiliation	Applicable	Waived	Applicable
No Credit Elsewhere	Waived	Waived	Waived
Forgiveable	No	Yes	Yes, up to 100%. Forgiveness of indebtedness of an amount equal to the sum of the qualified costs incurred and payments made during the covered period (8-week period following loan origination). Forgiveness portion may be reduced by a reduction in retained employees or reduction in pay of retained employees.
Interest	3.75%	N/A	Up to 4% for non-forgiven portion Currently fixed at 0.5%
Term	Up to 30 Years	N/A	Up to 10 years for non-forgiven portion Currently 2 years
Prepayment Penalty	None	N/A	None

Next Steps

- Review your options as listed in this document.
- Contact the KENTUCKY SBDC office to speak with a business coach. There are 10 offices located throughout the Commonwealth, serving every county, and you can access the resources nearest you through the website, phone number and email listed below.
- During this unprecedented time, our business coaches are available via phone, email or video-conference to assist you in applying for these types of assistance and answering any questions you have.
- Your business coach will be able to answer any questions you may have. He/she will be available to assist you as you navigate the application process.

KyBizHelp.com
1-888-475-7232
info@kybizhelp.com



ABOUT THE KENTUCKY SBDC

The Kentucky Small Business Development Center has been assisting the Commonwealth's small business community for more than 39 years.

With 10 service centers statewide and an experienced and knowledgeable staff, KSBDC provides unparalleled consulting and training services that help existing business owners and potential entrepreneurs succeed.

Our services include: one-on-one management consultations, training workshops, market research, loan packaging help, assistance with financial projections and information needed to make informed business decisions.



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