

## **SBA Economic Injury Disaster Loan Program**

The recently passed Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), introduces an expansion of the already existing Small Business Association (“SBA”) Disaster loan program. For a qualifying business, this option provides financing for up to two million dollars (\$2,000,000) to those presently affected by the COVID-19 pandemic. This program is administered by the SBA (and the SBA Department can help with questions and/or forms). Once all the forms are submitted, it is estimated that it could take a few weeks to receive the requested funds. In light of that, we suggest that small businesses affected by COVID-19 apply as soon as possible.

The SBA Economic Injury Disaster Loan Program will have two phases. Most business would fall into phase one of the SBA Economic Injury Disaster Loan Program (“SBA-EIDL Program”). Phase two is designed to address the needs of larger small businesses (i.e., businesses with more than a few dozen employees).

Many features and details of the SBA-EIDL Program are provided below:

- Loan amounts will be up to two million dollars (\$2,000,000) for a business applicant and all of its affiliates;
- SBA will use credit scores in their decisions for approval;
- Interest rates for businesses will be 3.75% fixed, with a repayment term of thirty years (30).
- Payments may be deferred for the first twelve months (12) (i.e., businesses can focus on getting back to work instead of paying back the loan).
- In a phase one application, the maximum loan amount will be fifty percent (50%) of gross profit from the last completed fiscal year, based on the prior year’s tax returns (Sales - Cost of Goods Sold = Gross Profit x 50% = Maximum Loan Amount).
- Larger businesses can proceed to a phase two application, which may require additional documentation if more than five hundred thousand dollars (\$500,000) is needed.
- Loans of over twenty-five thousand dollars (\$25,000) may be secured if collateral is available (and real estate will be the preferred collateral).
- All owners with twenty percent (20%) or more stake will personally guaranty the loan, and changing ownership prior to application to lower an individual’s ownership (to avoid a personal guaranty) could jeopardize eligibility.
- The proceeds may be used for working capital for business expenses only, including supplies and materials, payroll, debt payments, utilities, and other operational costs. It appears that essentially all the expenses included on the business expense financials in the past twelve months (12) is likely eligible. Anything else, such as expanding, renovating, or making capital equipment purchases does not appear to be included.
- No debt consolidation will be allowed, but there may be an exception for refinancing temporary or interim loans that were taken out due to the COVID-19 crisis (for operational expenses).
- Once a company has applied for funds under the SBA-EIDL program, they can request a ten thousand dollar (\$10,000 advance), if necessary.
  - The advance can be requested at the same time the company applies for the broader EIDL funds.

- As an added benefit, if the loan application is approved, the SBA must distribute the ten thousand dollars (\$10,000) within three days, and if the primary EIDL loan is denied at the end of the full review process, the advanced ten thousand dollars (\$10,000) is not required to be paid back.
- There is an overlap with Paycheck Protection Program (“PPP”) under the CARES Act.
  - For those who receive an EIDL before the PPP becomes available, any funds received via EIDL can be refinanced into the PPP loan.
  - As an added benefit, the refinancing option under the PPP could allow the company to have the EIDL funds made eligible for forgiveness, and even if the EIDL funds are refinanced, the ten thousand dollar (\$10,000) advance, if awarded, does not need to be repaid.
- Non-profit companies may also apply (but there are exceptions for certain businesses).

As mentioned above, the timeline is expected to take less than a week for approval using the scoring system after a business applies directly online (and they will use tax return transcripts to verify applications). Currently, the estimated target to close is approximately thirty (30) days. There is an estimation that between three hundred thousand to five hundred thousand (300,000 to 500,000) applications will be received within the next two to three weeks, so we encourage businesses to apply as soon as possible. If funds are needed immediately, there is the option to seek the ten thousand dollar (\$10,000) advance (as noted above).

We want to remind businesses to retain all receipts and all evidence of what they spent the proceeds received from the loan for a period of at least three (3) years. Given how hectic the current situation is, we expect that there may be a considerable number of audits in the next twenty-four months (24) to insure only eligible business expenses were paid with the funds.