

COVID-19 Federal Small Business Resources Update: SBA Loan Programs and Main Street Lending Program

4/24/2020

Hosted by the National Center for Manufacturing Sciences



Introduction

- **Lisa Strama, NCMS President/CEO Remarks**
- **McAllister & Quinn Introduction** (Chris Fish, Vice President and Jake Parduhn, Director of Federal Affairs)
- **Agenda:**
 - Update/Review of the SBA Paycheck Protection Program (PPP) Loan Program
 - Update/Review of the SBA Economic Injury Disaster Loan (EIDL) and Grants Program
 - Review Business/Labor Provisions in Economic Stimulus Package
 - Review Federal Reserve's Upcoming Main Street Lending Program
 - Questions and Process for Follow-Up Information

Disclaimer

* The National Center for Manufacturing Sciences and the presenters offer this presentation for purposes of providing general information with respect to the subject matter covered by the presentation. The information presented should not be construed as financial/legal advice or guidance with respect to the issues discussed by the presenters or the materials provided as part of the presentation. Your participation in this presentation or your consideration of the materials included does not create any client or customer relationship between the National Center for Manufacturing Sciences, the presenters and you.

Update on Federal Economic Stimulus

Phase I Stimulus Package: March 6th - Coronavirus Preparedness and Response Supplemental Appropriations Act

- \$8.3 billion for public health response. No small business/manufacturer relief.

Phase II Stimulus Package: March 18th – Families First Coronavirus Response Act

- Expansion of FMLA benefits and Emergency Sick Leave benefits for employees who were affected by COVID-19. 100% refundable tax credits for employers. Affects all entities 500 employees and under.

Phase III Stimulus Package: March 27th - Coronavirus Aid, Relief and Economic Security (CARES) Act

- \$2.2 trillion bailout that included over \$350 billion for PPP and EIDL loan programs, expanded unemployment insurance.
- Interim funding package for an additional \$370 billion to be finalized.

What to Expect Next for Federal Economic Stimulus?

- Interim funding package of \$470+ billion to provide additional funding for both the PPP Program the EIDL Program.
 - \$310 billion for PPP (\$60 billion set-aside for smaller lenders).
 - \$60 billion for EIDL loans and grants
 - \$75 billion for hospitals/health system
 - \$25 billion for national testing strategy capabilities improvements
- Funding package has been passed by Congress. We expect the interim funding package to be signed into law by the end of this week.
- Expecting a 4th Stimulus Package in May/June - Potential Future Economic Stimulus Response Items Related to Manufacturers.
 - Hazard pay and worker protection standards for certain employee classes
 - Workforce development programs and funding
 - Additional tax changes/credits
 - Manufacturing supply chain support

SBA Loan Programs Update

- The SBA used the first tranche of funding - **\$350 billion** for the PPP and **\$10 billion** for the EIDL program within 13 days.
 - 1.6 million PPP loans and 27,000 EIDL loans approved.
- Wide range of processing times from a few days to over a week. Many applications in the queue awaiting new funds to be provided by Congress to the program.
- By law, the SBA will not be able to issue new loan approvals once the programs have experienced a lapse in funding. As soon as the interim funding package is signed into law, the SBA will begin processing applications, obligating funds, and assigning loan numbers again.
 - In the time being, if you haven't applied, prepare your application/documentation and continue conversations with a qualified lender.
 - Issues with EIDL/PPP, contact SBA 24/7 Helpline: [800-659-2955](tel:800-659-2955)
- Time lapse for accepting new applications will allow SBA administrative “bottleneck” issues to be solved.
 - Issues with the agency’s “E-Tran” system that banks must use to authorize loans.
 - Rollout of SBA guidance documents for lenders.

Overview of SBA Loan Programs

- **SBA “Paycheck Protection Program” (PPP) 7 (a) Loan Program:**
 - **Federal Government’s Mission:** Provide capital to cover the cost of retaining employees.
 - **Overview:** Newly authorized Paycheck Protection Program (PPP) makes loans of up to \$10M available to qualified small businesses and nonprofits. PPP loans are intended to be **forgivable** if the borrower maintains employees and complies with requirements. Congress has provided \$349 billion for this program.
 - **Applying:** Simple application process. Processes are being put in place to handle volume of applications. Loan applications began being processed on April 3rd. Will resume as soon as interim funding package has passed.
- **SBA Economic Injury Disaster Loan (EIDL) Program:**
 - **Federal Government’s Mission:** Quick infusion of cash to cover your expenses right now.
 - **Overview:** An additional \$10 billion for Economic Injury Disaster Loans. Since there is a national emergency declared, every location in the U.S. is eligible. This would also authorize the SBA to advance as much as \$10,000 to existing and newly eligible disaster loan recipients within three days of receiving their applications.
 - **Applying:** Small businesses can apply for EIDL as soon as interim funding package has passed. EIDL has a live application on the SBA’s website.

Eligibility Consideration – SBA Affiliation Rules

For purposes of the determining the number of employees of an applicant for SBA loans, the applicant is considered together with its affiliates. Four tests for affiliation.

- **Affiliation based on ownership:** a concern is an affiliate of an individual, concern, or entity that owns or has the power to control >50 percent of the concern's voting equity. SBA will deem a minority shareholder to be in control if they can block actions by the Board of Directors.
- **Affiliation arising under stock options, convertible securities, and agreements to merge:** In determining size, SBA considers stock options, convertible securities, and agreements to merge (including agreements in principle) to have a present effect on the power to control a concern.
- **Affiliation based on management:** Affiliation arises where the CEO or President of the applicant concern (or other officers, managing members, or partners who control the management of the concern) also controls the management of one or more other concerns.
- **Affiliation based on identity of interest:** Affiliation arises when there is an identity of interest between close relatives (same industry, same geographic area).

***If the SBA rules that affiliation exists, applicants can provide evidence showing the contrary. For full review of SBA Affiliation Rules, please consult the following link: [Click Here](#)

SBA 7 (a) Loan Program

“Paycheck Protection Program”

- **Who is the Lender?** A financial institution that is SBA qualified for PPP loans, SBA underwrites the loan.
- **What is the potential amount of the loan?** Maximum loan size is \$10 million. Total loan amount calculation: 250% of your average monthly payroll costs. Payroll costs are capped at \$100,000 on an annualized basis for each employee.
- **What are allowable loan usages?** Payroll costs, healthcare benefits, insurance premiums, utility payments, and interest (but not principal) on mortgages, rent, or other debt obligations incurred prior to February 15, 2020.
- **Loan Rate and Term?** 2 years, 1% fixed rate.
- **Collateral/Personal Guarantee Required?** No collateral or personal guarantee is required.
- **Eligibility?** Small businesses (500 employees or less), non-profits: 501(C)(3) and 501(C)(19), self-employed, independent contractors, Veteran’s Orgs. SBA Affiliation Rules apply in most cases.

SBA 7 (a) Loan Program

“Paycheck Protection Program”

- **Is there a loan forgiveness program?**
 - Yes –the amount spent by the borrower during an **8-week period** after the origination of the loan on: payroll costs, healthcare benefits, insurance premiums, utility payments, and interest (but not principal) on mortgages, rent, or other debt obligations initiated prior to February 15, 2020.
 - Payroll costs (compensation/benefits) are **capped at \$100,000** on an annualized basis for each employee.
 - Not more than **25 percent** of the loan forgiveness amount may be attributable to nonpayroll costs.
 - The amount forgiven will be **reduced proportionally** by any reduction in full-time employees and employee compensation (>25%) compared to the prior year. Reductions in the number of employees/compensation until April 26th will generally be ignored to the extent that reductions are reversed by June 30, 2020. SBA will issue further guidance.
- **What happens after loan forgiveness?** Loan amounts not forgiven are carried forward as an ongoing loan with max terms of 2 years, at a fixed interest rate of 1%.
- **Can I get more than one PPP 7 (a) loan?** No, an entity is limited to one PPP loan.
- **Can I get other SBA loans?** It is possible, but subsequent loans would have to be for different purposes (ex. cannot pay for payroll costs with two different SBA loans).

SBA Economic Injury Disaster Loan and Grant (EIDL) Program

- **Who is the Lender?** Small Business Administration (SBA).
- **What is the potential amount of the loan?** Maximum loan size is \$2 million. Applicants who apply may request an advance of \$1,000 per employee, ranging up to \$10,000 from the SBA. Advance will be distributed within 3 days. The advance does not need to be repaid under any circumstance.
- **What are allowable loan usages?** Most financial obligations and operating expenses that could have been met had the disaster (COVID-19) not occurred.
- **Loan Term and Rate?** Up to 30 years, 3.75% for businesses, 2.75% for non-profits annual rate.
- **Eligibility?** Small businesses and private non-profits with 500 or fewer employees, including: Sole proprietorships, Independent contractors, Cooperatives and employee owned businesses, Tribal small businesses. Must have been in operation since January 31, 2020.
- **Collateral/Personal Guarantee Required?** Yes, for loans greater than \$200,000, owners of more than 20% of the business, managing members of LLCs, have to provide a personal guarantee. However, no liens will be taken against real estate owned by the guarantor. The SBA will place a lien against the assets of the business as collateral.

SBA Economic Injury Disaster Loan and Grant (EIDL) Program

- **Loan Deferment?** One year after the loan origination date (interest is accrued during the deferment).
- **Loan forgiveness program?** No, loan forgiveness only applies to the PPP.
- **Can I get an EIDL and/or a PPP loan?** Yes - if you've already received an EIDL unrelated to COVID-19 or you receive a COVID-19 related EIDL between January 31, 2020 and June 30, 2020, you may also apply for a PPP loan. If you ultimately receive a PPP loan or refinance an EIDL into a PPP loan, any advance amount received under the EIDL Grant Program would be subtracted from the amount forgiven in the PPP. However, you cannot use your EIDL for the same purpose as your PPP loan.

How to Apply for the SBA PPP 7 (a) and EIDL Loan Programs?

How long are these loans available?

- **PPP:** Loans are available through June 30, 2020.
- **EIDL:** Loans are available through September 30, 2020. Reverts back to original program requirements after.

Can I apply now?

- **PPP:** Yes, but you need to wait for additional funds to be appropriated to the program. Link to Application Form: <https://www.sba.gov/document/sba-form--paycheck-protection-program-ppp-sample-application-form>. Must include documentation as is necessary to establish eligibility, such as payroll processor records, payroll tax filings, or Form 1099-MISC, or income and expenses from a sole proprietorship.
- **EIDL:** Yes, but you need to wait for additional funds to be appropriated to the program. To apply for an EIDL online, please visit <https://disasterloan.sba.gov/ela/> Your SBA District Office is an important resource when applying for SBA assistance.

How long will the loan application process take?

- **PPP:** Varies by financial institution, could be days or over a week depending on the lender.
- **EIDL:** Typical processing time has varied.

Paid Leave Provisions

Expanded Family Medical Leave Act (FMLA) Leave:

- Eligible employees may take **up to 12 weeks** of job-protected FMLA leave when they are unable to work/telework because they need to care for a son or daughter if their school or place of care has been closed, or their child-care provider is unavailable.
- First two weeks of FMLA leave are unpaid, employers must pay the employee two-thirds of the employee's regular rate of pay for each day of FMLA leave taken thereafter, **capped at \$200 per day, and \$10,000 in the aggregate.**
- Employers should request and keep documentation as if dealing with a typical FMLA request. This documentation is also important if the employer plans to **claim tax credit** under the FFCRA.

Emergency Paid Sick Leave:

- All full-time employees regardless of length of employment are entitled to take **80 hours** paid sick leave immediately. Part-time employees are pro-rated.
- New sick leave amounts **are in addition to and not in place of** any other statutorily provided or employer-provided sick leave benefits. Employers must permit employees to use COVID-19-related sick leave before other sick leave.
- Employers are required to pay an employee at **regular rate** of pay up to a cap of **\$511 per day and \$5,110 in the aggregate** for sick leave use and at **2/3 of regular rate** capped at **\$200 per day and \$2,000 in the aggregate** for sick leave for caring for others.
- **Employers must post in the workplace.** A template notice will be provided by the Department of Labor.

Tax Credits for Emergency FMLA Leave and Paid Sick Leave and FFCRA Resources

Tax Credits:

- FFCRA provides a refundable tax credit equal to 100% percent of qualified paid leave benefits paid by an employer subject to certain caps.
- Applicable tax credits also extend to amounts paid or incurred to maintain health insurance coverage.

Who does this apply to?

- All businesses and non-profits with 500 employees or less (businesses with less than 50 employees can apply for a hardship waiver).

Resources:

- **Link to DOL FFCRA FAQs:** <https://www.dol.gov/agencies/whd/pandemic/ffcra-questions>
- **Link to DOL FFCRA Guidance:** <https://www.dol.gov/agencies/whd/pandemic>

Business Payroll Provisions

Delay of Payment of Employer Payroll Taxes:

- Allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax.
- Requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022.

Employee Retention Credits for Employers:

- Provides payroll tax credits for 50% of wages paid by eligible employers to certain employees.
- The credit is available to employers whose operations have been fully or partially suspended or have greater than 50% reduction in quarterly receipts, measured on a year-over-year basis.
- Wages of employees who are furloughed or face reduced hours are eligible for the credit. Employers with 100 or fewer full-time employees, all employee wages are eligible.
- The credit is provided for the first \$10,000 in wages and compensation.

*The credit is not available to employers receiving Small Business Interruption Loans (PPP/EIDL)

Main Street Lending Program: New Fed Lending Program

- Last week, Federal Reserve released details on plans to make **\$600 billion in loans** available through its Main Street Lending Program.
- The Main Street Lending Program will provide loans for a **broader range of entities** than the CARES Act by focusing on not only small businesses, but also on mid-sized businesses.
- Main Street New Loan Facility (MSNLF) will provide **newly originated** loans to eligible businesses and the Main Street Expanded Loan Facility (MSELF), will allow companies to **increase existing loans**.
- Information on timing and other details about the application processes have not yet been released. Terms of the program are **subject to change**.

Main Street Lending Program: Overview (Tentative)

Term: Four-year maturity.

Deferment period: Principal and interest payments deferred for one year.

Rate: 2.5% to 4%.

Prepayment: Permitted without penalty.

Eligibility: Less than 10,000 workers, or up to \$2.5 billion in 2019 revenue. There has been no indication that the SBA's affiliation rules will apply.

Eligibility for Other Programs: Does not prohibit companies from participating in the SBA's PPP and other programs. Companies cannot, however, participate in both of the Main Street Lending Program facilities.

Loan Forgiveness: No, not a similar loan forgiveness provision like SBA PPP.

Collateral Requirements: New loans under the MSNLF will be unsecured. Existing collateral on upsized loans under the MSELF will secure the upsized loan on a pro rata basis.

Main Street Lending Program: Overview (Tentative)

Borrower Fees:

- FED Facility Fee: For new loans, the lender is required to pay a fee of 1% of 95% of the principal amount, which the lender may pass through to the borrower.
- Origination Fee: For both new and upsized loans, the borrower is required to pay a fee of 1% of the principal amount of the new loan or of the upsized loan tranche.

Size of Loans:

- Main Street New Loan Facility (MSNLF): Min. - \$1 million, Max - The lesser of \$25 million or the amount that, when added to the borrower's existing outstanding and committed but undrawn debt, does not exceed four times the borrower's 2019 EBITDA (earnings before interest, taxes, depreciation, and amortization).
- Main Street Expanded Loan Facility (MSELF): Min - \$1 million, Max - The lesser of 1. \$150 million; or 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, bank debt, does not exceed six times the borrower's 2019 EBITDA.

Main Street Lending Program: Loan Conditions

- Prohibits the business/affiliates from **purchasing outstanding stock or paying dividends** for the term of the loan plus one year.
- Must be able to certify that the business is **U.S.-based**.
- **Wage limits for highly compensated employees** that last for one year after the loan has been repaid. Employees with total compensation, including salary and other financial benefits, greater than \$425,000 in 2019 couldn't receive an increase over their 2019 compensation or termination pay that exceeds twice that level.
- Loan agreements with publicly traded businesses must include a provision that provides for **government participation in equity** appreciation. For businesses not publicly traded, agreements could include a senior debt instrument issued by the business.
- Proceeds will **not be used to repay other loan balances. No repaying other debt of equal or lower priority** with the exception of mandatory principal payments.
- Borrower will **not seek to cancel or reduce existing lines of credit**.
- The borrower will “make reasonable efforts to **maintain its payroll and retain its employees**” during the loan term.

Main Street Lending Program: Next Steps

Interested businesses should consider the following:

- **Review additional guidance:** The Federal Reserve will be issuing additional guidance to potential borrowers and lenders with details on how to access funding.
- **Evaluate your options:** Review both the New Loan and Expanded Loan Facilities. Depending on your relationship with your current lender(s), upsizing an existing loan could potentially be a quicker route to access funding due to your existing relationship. In addition, based on the maximum loan size, you may be eligible for a larger loan size by increasing an existing loan.
- **Reach out to your current lender:** Contact your lender to discuss this upcoming program, your company's financial position, potential funding needs, current debt obligations, and which program might be the best fit. Review any current arrangements that may limit participation.

Questions and Follow-Up

- These slides will be posted on the NCMS website.
- Frequently Asked Questions (FAQs) list will be periodically updated and posted on the NCMS website as additional information surfaces.
- NCMS Point of Contact: Rebecca Taylor, Executive Vice President, RebeccaT@ncms.org