



COVID-19: SBA LOAN PROGRAMS

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Presenters



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Loan Programs

- **Two** loan programs available to businesses who have been damaged by the pandemic:
 - Economic Injury Disaster Loans (“EIDL”), which were funded earlier this month
 - Paycheck Protection Program Loans (“PPPL”), which are part of the CARES Act.

Note: Employee retention credit is not available if you do a PPPL

CARES Act – Employee Retention Credit

- New credit for wages paid from March 13, 2020 through December 31, 2020 by employers that are subject to closure or significant economic downturn due to COVID-19.
- Separate from paid sick leave and paid family leave established under The Families First Coronavirus Response Act that provides 100% payroll tax credit to certain employers.

Amount of Credit:

- The credit amounts are equal up to 50% of qualified wages paid by a qualified employer to an employee. The maximum amount of wages eligible for the credit is \$10,000 per employee.
- Credit is available against Social Security payroll taxes paid by employers.
- If the credit for the quarter exceeds the employer's overall Social Security tax liability, the excess is refunded.
- Additional definition for eligible wages and eligible employee

SBA Economic Injury Disaster Loan Program ("EIDL")

	Previously	Modified by the CARES Act
Qualifying	<p>All for profit and nonprofit businesses impacted by COVID-19 and based on revenue and employee count determined by NAICS code</p> <p>https://ecfr.io/title-13/se13.1.121_1201</p>	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA** • Sole proprietorships, with or without employees • Independent contractors • Cooperatives and ESOPs with < 500 EEs • Tribal small business concerns
Loan Amount	Up to \$2M based on formula	No change to loan amount; however, Emergency Advance up to \$10,000 available within three days of application
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	No change
Deferral	90 days	Up to 1 year
Interest Rate	3.75% for business and 2.75% for nonprofits	No change

SBA Economic Injury Disaster Loan Program ("EIDL")

	Previously	As Modified by the CARES Act
Terms	Up to 30 years	No change
Debt forgiveness	None	None
Personal Guarantee	Required by owners of 20% or more of the company, or at least one guarantor	Waived on advances and loans of \$200,000 or less for all applicants
Prepayment Penalties	Waived	No change
Credit Elsewhere	Evaluated	Waived
Approval documentation	Requires tax return submission	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay

EIDL Application Process

- Streamlined online process go to –
<https://covid19relief.sba.gov/#/>
- Emergency advance of \$10,000 available (check the box in the application)
- If you do not take an EIDL, the \$10,000 will be deducted from the PPPL
- Requires SBA to determine damage to award the loan

Paycheck Protection Program Loan

Paycheck Protection Program Loan (PPPL)

- Loans provided during the period from February 15, 2020 to June 30, 2020
- SBA to provide 100% federally-backed loans
- Will be administered through commercial banks approved as SBA lenders
- No recourse unless loan proceeds used for unauthorized purposes
- Loan under SBA Disaster Loan Program after Jan 31, 2020 may be refinanced under this new program
 - Understanding you can get both if proceeds are used for different purposes
- Exclusion for the small business requirement as it relates to restaurants and hotels, based on less than 500 employees per location
- Franchise affiliation

Paychecks Protection Program Loan

	Disaster Loan	Paycheck Protection Loan
Qualifying	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietorships, with or without employees • Independent contractors • Cooperatives and ESOPs with < 500 EEs 	<ul style="list-style-type: none"> • Less than 500 EEs or applicable industry size standard determined by SBA <ul style="list-style-type: none"> • For Profit businesses • Nonprofit organization • Veterans' organization • Tribal business • Sole proprietors • Independent contractors • Self-employed individuals
Loan Amount	Up to \$2M based on formula	Up to \$10M based on a multiple of 2.5 times the average monthly payroll over one year prior to loan <u>PLUS</u> outstanding loan under Disaster Loan Program
Loan Proceeds Use	Payroll, paid sick leave, payables, debt service	Payroll costs, benefits costs, salaries and commissions, mortgage interest, rent, utilities and interest on debt incurred before February 15th
Interest Rate	3.75% for business and 2.75% for nonprofits	0.5% *Recent change*

What Does Payroll Include?

Sum of payment of any compensation with respect to employees that is:

- Salary, wage, commission or similar
- Payment of cash tip or equivalent
- Payment for vacation, parental, family, medical or sick leave
- Allowance for dismissal or separation
- Payment required for group health care including premiums
- Payment of retirement benefit
- Payment of any state or local tax (e.g., SUTA)
- Sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from SE or similar compensation and that is in an amount that is not more than \$100,000 in year (pro-rated for covered period)

What Does Payroll Not Include?

Does NOT include:

- Compensation in excess of \$100,000
- Taxes imposed or withheld under chapters 21, 22 or 24 of the IRS Code
- Compensation of an employee whose principal place of residence is outside of the US
- Qualified sick leave wages for which a credit is allowed under Families First (no double dipping)
- Qualified family leave wages for which a credit is allowed under section 7003 of the FFCRA

Paychecks Protection Loan

	Disaster Loan	Paycheck Protection Loan
Terms	Up to 30 years	Two year maturity
Debt forgiveness	None	Provides for debt forgiveness with stipulations At least 75% must be used for payroll
Deferral of Payments	Up to 1 year	Minimum of six months, up to one year
Personal Guarantee	Waived on advances and loans of \$200,000 or less for all applicants	No personal guarantee or collateral required
Prepayment Penalties	Waived	Waived
Credit Elsewhere	Waived	Waived
Approval documentation	No tax return submission required. Based solely on credit scores or alternative methods to determine ability to pay	Good-faith certification <ul style="list-style-type: none"> • Fund operations during COVID-19 • Fund payroll, mortgage, lease and utility payments • No other application under program for same purpose • Has not received duplicative amounts under this program

PPL Debt Forgiveness

How does debt forgiveness work?

- Amount forgiven cannot exceed principal amount of the loan
- Debt forgiveness is excluded from gross income
- Equal to costs incurred and payment made during covered period – eight weeks after the date of the loan is issued for:
 - Payroll costs
 - Interest payments on mortgages and other debt incurred prior to 2/15/2020
 - Rent
 - Utility payments
- Will be reduced for any employee cuts or reductions based on formula
- Relief is available for employers
 - Rehire employees by June 30, 2020
 - Make up for wage reductions by June 30, 2020

Debt Forgiveness

Step 1 - Create a Pool of Eligible Dollars

- Determine the pool of eligible dollars
- Spent in the eight weeks after the origination of the loan
- Based on the eligible costs
 - Payroll (75%)
 - NonPayroll (25%)
 - Rent
 - Utilities
 - Interest on mortgage and debt
- No more than 25% of the dollars should be to non-Payroll expenses

Debt Forgiveness

Step 2 – Workforce Retention

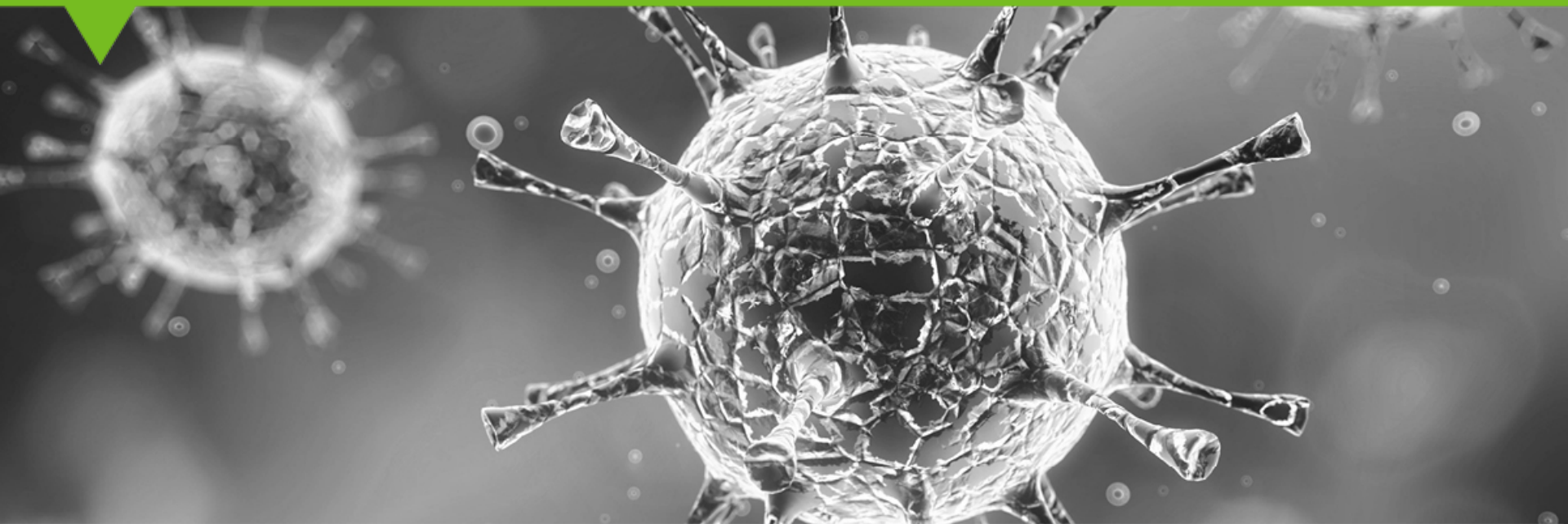
- Full-time equivalent employee (“FTEE”)
- Sets a baseline – at the company’s option either
 - Average FTEES 2/15/2019 to 6/30/2019 **–OR–**
 - Average FTEES 1/1/2020 to 2/29/2020
- Compares the baseline to the average FTEEs during the eight week period to create a % of FTEEs retained
- Can be “cured” by rehiring workforce by June 30, 2020
- Not the same employees, simply an FTEE count

Debt Forgiveness

Step 3 – Payroll Reduction

- Further reduction for any individual whose pay has been reduced by more than 25%
- Can be “cured” by putting salaries back to pre-reduction levels by June 30, 2020

Example of Debt Forgiveness



Scenario 1 **Business has retained significant number of employees**

Scenario 2 **Business has not retained a significant number of employees but rehires on June 30, 2020**

Debt Forgiveness Calculation #1

- Loan Amount - \$500,000
- Loan Funded 4/15/2020
- Spent in eight weeks after 4/15/2020
 - Payroll costs \$472,000
 - Rent \$25,000
 - Utilities \$12,500
 - Total \$509,000
- Average Total FTEE – 2/15/2019 – 6/30/2019 = 64
- Average Total FTEE – 1/1/2020 – 2/29/2020 = 71
- Average Total FTEE eight weeks after the loan = 65

Debt Forgiveness Calculation #1

- Total Spent - \$509,500
- % of Spent Payroll – 92.7% ($\$472,000/\$500,000$)
 - Non Payroll cannot exceed 25%
- Eligible Dollars For Forgiveness - \$500,000
 - Can't exceed loan amount
- Workforce Retention Factor – 65/64 – 100%
- Debt Forgiveness - $\$500,000 * 100\% = \underline{\underline{\$500,000}}$

Debt Forgiveness Calculation #2

- Loan Amount - \$2,000,000
- Loan Funded 4/15/2020
- Spent in eight weeks after 4/15/2020
 - Payroll costs \$350,000
 - Rent \$100,000
 - Utilities \$75,000
 - Interest on debts \$240,000
- Total FTEE – 2/15/2019 – 6/30/2019 = 180
- Total FTEE – 1/1/2020 – 2/29/2020 = 194
- Total FTEE eight weeks after the loan = 40

Debt Forgiveness Calculation #2

- Total Spent - \$765,000
- Total Spent Payroll - \$350,000
- Maximum of Non Payroll - \$116,666 (25%)
- Eligible Dollars For Forgiveness - \$466,000
- Workforce Retention Factor - 40/180 – 22.2%
- Debt Forgiveness - $\$466,000 * 22.2\% = \mathbf{\$103,545}$

----- Trigger the June 30th Clause -----

- Eligible Dollars For Forgiveness - \$466,000
- Workforce Retention Factor - 40/180 - 22.2%
- Rehired by June 30, 2020? Yes. Percentage = 100%
- Debt Forgiveness - $\$466,000 * 100\% = \mathbf{\$466,000}$

PPL Debt Forgiveness

How do I apply for forgiveness?

- Borrowers must submit to their lender the following:
 - Documentation verifying employees on payroll and their pay rates
 - Documentation on covered costs/proof of payments
 - Certification from business representative
 - Additional documentation as requested
 - Amount forgiven cannot exceed principal amount of the loan

PPPL Application Process

- Through commercial lenders that are SBA approved
- SBA released a sample application
- https://www.sba.gov/sites/default/files/2020-03/Borrower%20Paycheck%20Protection%20Program%20Application_0.pdf
- FAQ says ready to lend by
 - April 3rd – Small businesses and sole proprietorships
 - April 10th – Independent contractors and self-employed individuals
- Banks however may not be ready by April 3rd. Many are saying next week.
- Applications likely to be through a commercial lender's electronic portal.

Payroll Protection Program Loans

- Plan to maximize debt forgiveness in a way that makes economic and business sense
- Qualified expenses
 - May behoove you to continue to pay interest and rent, whereas you might have negotiated with your lender not to.
 - Wait until the eight week period clock starts
- Lay off or Furlough or Unemployment
 - When to take the loan?
 - Beginning if you have all your employees currently
 - End (if you can) of the period - if you have a low work force - get the benefit of the eight weeks following the day you take the loan in July/August. Employees back at work.

SBA Loans – Now What?

- Evaluate which loan program is best for your situation based on:
 - Qualifications and program details
 - Modeling of scenarios to maximize loan amount and debt forgiveness
 - Understanding is that you can take both – the proceeds must be used for different purposes
- Be Proactive
 - Reach out to your banker that is SBA approved
 - Keep your books and records current
 - Gather legal documents for easy reference (e.g., organizational, leases, loans)
 - Keep investor ownership records current
 - Keep investors apprised of overall status

What to Expect from GBQ

- **Knowledge.** We're reading and reacting all day every day so that we can share important information with you quickly.
- **Accessibility.** We're not in the office, but we're on high alert to help with whatever you need.
- **Reliability.** One of us may not know the answer, but our team will find it, whether inside or outside of GBQ. We will help you solve your problems.
- **Empathy.** We are learning every day, just like you. We are worried about our employees, our customers and our families, just like you.

Questions

