

Economic Relief for Small Businesses Impacted by COVID-19 - *Client Newsletter*

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The Coronavirus Aid, Relief, and Economic Security Act, the CARES Act

In response to the coronavirus disease 2019 (COVID-19) outbreak, the Senate has passed a \$2 trillion stimulus package to help mitigate the economic impact of the pandemic. The bill, entitled the “Coronavirus Aid, Relief, and Economic Security Act” or the “CARES Act,” is slated for a vote in the House of Representatives on Friday. If the House passes the bill, it will land on the President’s desk to be signed into law. The stimulus package includes \$350 billion in appropriations to the Small Business Administration (SBA) for the Business Loans Program Account for the Paycheck Protection Program.

Paycheck Protection Program

The Paycheck Protection Program is designed to ensure the continued employment of employees through business interruptions. Under the bill, the program will cover the period from February 15, 2020 to June 30, 2020. Business concerns and nonprofit organizations with no more than 500 employees, including certain sole proprietorships, independent contractors, and self-employed individuals, will be eligible to receive loans of up to \$10 million under the program. Businesses will be able to use the proceeds of these loans for:

- payroll costs;
- costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
- employee salaries, commissions, or similar compensation;
- payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage

obligation);

- rent (including rent under a lease agreement);
- utilities; and
- interest on any other debt obligations that were incurred before the covered period.

Loan Forgiveness

Eligible recipients of these loans will be eligible for forgiveness of indebtedness in an amount equal to the sum of payroll costs, payments of interest on covered mortgage obligations, payments on covered rent obligations, and covered utility payments made during the covered period, but not to exceed the principal amount of the loan.

Furthermore, the amount of loan forgiveness will be reduced based on reductions in the average number of full-time employees and compensation to employees during the covered period. However, if the employer has reduced the number of full-time employees or compensation to employees between February 15, 2020 and 30 days after the date of enactment of the bill, and if the employer eliminates such reductions by June 30, 2020, then such reductions will not reduce the amount of loan forgiveness. For a loan recipient to receive forgiveness, it must adhere to strict documentation requirements, so it's important for businesses to know and understand these requirements.

Application, Eligibility, and Payment Deferment

The bill will delegate authority to lenders to make and approve these loans to eligible borrowers, which will be 100 percent SBA-guaranteed. This means that borrowers will be able to apply for and receive these loans from participating banks in lieu of the SBA itself, and the bill includes a waiver of fees. The bill will further provide for additional lenders to participate in the program, and it is expected that most if not all FDIC-insured banks will be able to make and approve such loans.

The bill will remove certain eligibility requirements, such as the requirement that the borrower be unable to obtain credit elsewhere and requirements for personal guarantees and collateral. Instead, the borrower is only required to have been in operation on February 15, 2020 and to have had employees for whom the borrower paid salaries and payroll taxes. The bill will further require lenders to provide complete payment deferment relief for impacted borrowers, including payment of principal, interest, and fees, for a period of not less than six months and not more than one year.

SBA Guidance and Regulations: Be Prepared

Within 30 days after the date of enactment of the bill, the SBA will issue guidance and regulations to implement the program. Therefore, it's imperative for business owners to compile all the required documentation and information and prepare to submit their applications as soon as possible.

We will update you with any changes once the final bill is signed into law. Our team at Pashman Stein Walder Hayden is available if you need additional information about the CARES Act, or if you have any questions about the impact it may have on your business.

