

Statesman's SBA Expertise

Statesman is the Southwest's leading packager and placement agent of government enhanced credit products targeted to small and middle-market businesses. During the past **25 years**, we have assisted over **4,000 companies** in successfully accessing government loan programs for expansion, working capital, equipment and real estate purchases, business acquisitions, debt restructurings and partner buyouts. **Call to speak to one of our SBA experts and learn how we can help complete your disaster relief loan applications, calculate your Company's eligibility for government insured programs and source a lender if your current bank is not SBA approved.**

CARES Act: SBA 7(a) Paycheck Protection Program Loan

*The following is a summation of the Paycheck Protection Program in the CARES Act as of March 30, 2020.
This information is subject to change upon future guidance from the SBA.*

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), which provides crucial support and relief for businesses, including \$349 billion for Small Business Administration (SBA) loans under its 7(a) loan program.

For these **forgivable loans**, the CARES Act increases the maximum 7(a) loan amount to \$10 million and expands allowable uses of 7(a) loans to include payroll support (including paid sick or medical leave), employee salaries, mortgage payments, insurance premiums and interest on any other debt obligations that were incurred before February 15, 2020. Under the CARES Act, the covered loan period for this program would begin on February 15, 2020, and end on June 30, 2020. The entities eligible for 7(a) loans under the CARES Act include small businesses, or other business concern, nonprofits and veterans organizations with 500 or fewer employees (or the applicable size standard for a particular industry), as well as sole proprietors, independent contractors and certain self-employed individuals.

Key specifics related to the expanded 7(a) Loan program includes, among other things:

- The maximum loan amount, up to \$10,000,000, is calculated by multiplying the average total monthly payments made by the applicant for payroll costs incurred during the 1-year period before the date on which the loan is made by 2.5.

Maximum Loan Amount = (2.5 X 2019 Average Monthly Payroll)

- For seasonal employers, the maximum loan is calculated by multiplying 2.5 by the average total monthly payments for payroll during (i) the 12-week period beginning February 15, 2019 or (ii) at the election of the employer, March 1, 2019 through June 30, 2019.
- Government guarantee of 7(a) loans made under the CARES Act would be increased to 100%, virtually eliminating the credit risk for participating banks.
- Allows businesses in the accommodation and food service industries with more than 500 employees in the aggregate but that employs no more than 500 employees in one physical location to be eligible. Also, waives affiliation rules for certain business in the hospitality, food services and designated franchise industries.
- Specifies allowable uses of the loan to include payroll support, including paid sick, medical, or family leave, and costs related to the continuation of group health care benefits during those periods of leave; employee salaries, wages, commission or similar compensation; mortgage payments; rent (including rent under a lease agreement); utilities; and interest on any other debt obligations that were incurred before February 15, 2020.

- “Credit elsewhere” test, as well as personal guaranty and collateral requirements are waived.
- All loan payments are deferred for at least six months and up to one year.
- Waives borrower and lender guaranty fees and any prepayment penalties.
- Eligible borrowers are required to make a good faith certification that they have been negatively affected by COVID-19 and will use funds to retain workers and maintain payroll and other debt obligations and are not receiving duplicative funds for the same uses from another SBA program, as the CARES Act provides a limitation on a borrower receiving 7(a) loan assistance and an Economic Injury Disaster Loan through SBA for the same purpose.

Loan Forgiveness

Borrowers are eligible for loan forgiveness equal to the amount spent by the borrower during an eight-week period after the origination date of the loan on the following items: payroll costs; interest payment on any mortgage incurred prior to February 15, 2020; payment of rent on any lease in force prior to February 15, 2020; and payment on any utility for which service began before February 15, 2020.

Additional key specifics related to loan forgiveness include, among other things, the following:

- Amounts forgiven may not exceed the principal amount of the loan. Eligible payroll costs do not include compensation to any employee above \$100,000 in wages.
- Amounts forgiven will be reduced proportionally by any reduction in employees retained during the eight-week period after the date of the loan as compared to either (i) the period from February 15, 2019 to June 30, 2019 or (ii) the period from January 1, 2020 to February 29, 2020. The borrower can elect the period used for the analysis.
- Amounts forgiven will also be reduced by the reduction in pay of any employee beyond twenty-five percent (25%) of their compensation for the most recent full quarter during which the employee was employed.
- Borrowers that re-hire workers previously laid off will not be penalized for having a reduced payroll at the beginning of the period.
- The remaining loan balance of any portion of a loan that is not forgiven will have a maturity of not more than ten (10) years, and a maximum interest rate of one-half percent (0.5%).

The Treasury Department is expected to issue regulations by April 3rd which will detail the process for obtaining a loan from an SBA authorized lender. Treasury Secretary Mnuchin stated that he plans for the regulations to allow for most FDIC-insured banks to make same day loans to borrowers.

Interested in learning more about SBA loans or Statesman? Please feel free to reach out to any of our team members.

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