

Congress Expands Small Business COVID-19 Relief

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Congress and the Trump administration have struck a deal on another piece of legislation, the latest in a series of federal measures intended to provide relief in response to the novel coronavirus (COVID-19) pandemic. The \$484 billion legislation, which is being referred to as the Interim Stimulus Plan, amends the Coronavirus Aid, Relief and Economic Security (CARES) Act enacted in late March. Among other things, it provides additional funding to two loan programs designed to help small businesses slammed by the economic shutdown.

Paycheck Protection Program Funds

Most notably, **the Interim Stimulus Plan adds another \$310 billion to the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA).** The CARES Act originally allotted \$349 billion to the program, but those funds were depleted in less than two weeks.



The PPP program is available to many U.S. small businesses — including sole proprietors, self-employed individuals, independent contractors and nonprofits — affected by COVID-19. Businesses can qualify for 100% loan forgiveness for amounts used for payroll costs, mortgage interest, and rent and utility payments during the eight weeks after receipt of the loan, as long as no more than 25% of the loan proceeds are used for nonpayroll costs.

Borrowers also must maintain staff and payroll to qualify for full forgiveness. Loan forgiveness will be reduced if salaries and wages are reduced by more than 25% for any employee who made less than \$100,000 annualized in 2019. The interest rate on the nonforgiven portion of a PPP loan is 1%, and the loans run two years. All payments are deferred for six months, but interest will continue to accrue. Borrowers can prepay without penalties or fees.

APRIL 24, 2020

Paycheck Protection Program Funds (continued)

Small businesses generally are defined as those with fewer than 500 employees. But, for businesses in the hotel and restaurant sector, the CARES Act applies the 500-employee threshold on a per-physical location basis. That explains how large businesses with easier access to alternative funding sources, such as Shake Shack and the parent company of Ruth's Chris Steak House, obtained PPP loans in the first round of lending. (Shake Shack and the parent company of Ruth's Chris Steak House have since pledged to return their \$10 million loans.) The new law leaves this "loophole" intact.

Some small businesses also ran into problems when applying for the first round because they didn't have existing credit relationships with major financial institutions. The new law aims to remedy this problem by carving out \$60 billion of the additional funding for smaller lenders. Specifically, it designates \$30 billion of the \$310 billion for banks and credit unions with \$10 billion to \$50 billion in assets and another \$30 billion for institutions with less than \$10 billion in assets.

EIDL Funds

The Interim Stimulus Plan also adds \$50 billion in loans and \$10 billion in grants to the SBA's Economic Injury Disaster Loan (EIDL) program. And it extends EIDL relief to agricultural businesses with no more than 500 employees.

Under the CARES Act, small businesses with fewer than 500 employees experiencing a temporary loss of revenue due to COVID-19 can obtain advances of up to \$10,000 within days of a successful application; the loan advance doesn't have to be repaid. The SBA has simplified its existing EIDL application process and relaxed the credit standards in light of the COVID-19 crisis.

The interest rate on EIDLs is 3.75% for businesses, and businesses can borrow up to \$2 million. Repayment periods can run as long as 30 years, determined on a case-by-case basis based on the borrower's ability to repay. The CARES Act provides an automatic one-year deferment on repayment, but interest begins to accrue when the proceeds are disbursed.

Preparing for Another Round of Stimulus

Congressional leaders Nancy Pelosi and Mitch McConnell, Treasury Secretary Steven Mnuchin and President Trump have made clear that another stimulus package is already in the works. The provisions being discussed are wide ranging. For example, democrats hope to secure support for essential workers and state and local governments and address food aid, election security and funding for the U.S. Post Office. The president has indicated a preference for infrastructure spending, a payroll tax cut and bigger tax breaks for business meals and entertainment. We'll keep you posted on the latest developments.