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

The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27 provides $349 billion in funding for the Small Business Administration (SBA) in an effort to provide assistance and relief to America's small businesses struggling under the weight of COVID-19. The Act included a paycheck protection provision for small businesses by providing additional funding to the SBA for specific areas of need and expanding the SBA's 7(a) loan program.

What are the changes to the 7(a) Loan Program?

In an expansion of the SBA 7(a) loan program, the CARES Act allows the SBA to serve as temporary guarantor for 100% of 7(a) loans of up to $10 million for small businesses to maintain payrolls and pay off debts. Previously, the SBA could only serve as guarantor for 75% to 85% of 7(a) loans depending on the type of loan.

Who is eligible?

Those eligible for the paycheck protection program include small businesses, nonprofit organizations, veteran organizations, and tribal businesses with less than 500 total employees (including full-time, part-time, and any other status) in operation on February 15, 2020. For the hospitality and food industries where multiple locations may result in over 500 employees, an exception was made to allow for up to 500 employees per physical location.

Sole proprietors, independent contractors, and eligible self-employed individuals are also covered under this provision. Limitations apply for those making more than $100,000.

How do I qualify?

Small businesses that qualify as a result of COVID-19 include those adversely affected by:

- Supply chain disruptions
- Staffing challenges
- A decrease in gross receipts or customers
- Closure

Applicants must certify they have been adversely affected by COVID-19, that they intend to take out only one paycheck protection program loan, and that they will use it for the designated purposes.

How much can I receive?

Most eligible applicants should receive approximately two months-worth of payroll costs. Loans will be determined based on the average total monthly payments for payroll costs incurred in the 12 months preceding the date the loan is made and multiplied by 2.5. In the case of seasonal employers, the average will be based on the 12-week period beginning on February 15, 2019. For any employer who was not in business between February 19, 2019, and June 30, 2019, the calculations will be based on your average monthly payments for payroll between January 1, 2020, and February 29, 2020. The covered period for the loan is from February 15, 2020, ending June 30, 2020, and the maximum interest rate for these loans has been capped at 4%.

What can I use loan money for?

Eligible recipients may use the loans to cover payroll costs, costs related to the continuation of health care benefits, such as paid sick, medical and family leave, employee salaries and commissions, rent, utilities, interest, or other debt obligations.

Am I required to provide a personal guarantee?

No, a personal guarantee will not be required, and no collateral shall be required for the loan.

Do I need to pay the loan back?

As outlined in the CARES Act, loans will be forgiven if the business or organization maintains the same number of average employees and as long as wages are not reduced by more than 25% during the covered period, which is the eight-week period beginning with the origination of the loan. The amount forgiven cannot exceed the principal amount of the loan.

Should there be any reduction in loan forgiveness, the recipient will be required to pay back the loan and may owe interest as outlined in their agreement.

Am I eligible if I rehire employees?

Yes. If a business or organization has laid off or furloughed employees and rehires them, they may still be eligible for the loan depending on the timing. If the timing of rehire falls outside of the covered periods, the amount of loan forgiveness may be adjusted.

How do I apply?

To apply for the 7(a) loan program, you must contact a bank, not the SBA. The SBA lists their most active 7(a) lenders on their website at https://www.sba.gov/article/2020/mar/02/100-most-active-sba-7a-lenders. If you have a current relationship with one of these lenders, start there. The loan will be issued at the bank's discretion.

Loan application details will be forthcoming, and applications will be available through the lending institutions.

Planning for and beginning the application process for the paycheck protection program through the SBA 7(a) loans should begin immediately. Once final application guidance is released, businesses can begin submitting applications for these loans.

Note: The SBA has several loans available. Many people have already applied for the Disaster Relief Loans already available. The 7(a) loans are different and separate from that loan.