

What Is Life After Coronavirus?

How To Claim SBA Disaster & CARES Act Loans

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SBA Loan Resources



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Agenda for the Meeting Today

- 🌀 Brief Overview of SBA Loan Program
- 🌀 CARES Act Loan Program (Paycheck Protection)
- 🌀 Economic Injury Disaster Loan (EIDL) Program
- 🌀 Other Resources
- 🌀 Your Next Steps

Brief Overview

- 🌀 The SBA has multiple loan programs to help small businesses
 - Economic Injury Disaster Loans (EIDL)
 - 7(a) Loan Program
 - 504 Loan Program
 - Among others
- 🌀 Focus of the webinar is SBA Loans that can be used as relief during the COVID crisis to provide needed cash flow to businesses

Disaster Loans

- 🌀 Program is funded **directly by US Treasury** (SBA)
- 🌀 Subject to SBA underwriting
 - SBA reps make the lending decision
- 🌀 Because the loan is directly with SBA, underwriting standards are less strict – able to take more risk
- 🌀 \$2M Max loan limit
- 🌀 Purpose of the loans is to help a business recover from a natural disaster that has resulted in physical damage or economic damage – hurricanes, tornados, etc.

Standard 7(a) Loan Program

- 🌀 This loan program is run through **banks**
- 🌀 Subject to bank underwriting
 - SBA delegates its lending authority to bank – preferred lenders
- 🌀 SBA guarantees the loan after the loan is made
- 🌀 \$5M Max loan limit
- 🌀 Purpose of the loans is typically to fund an expansion of the company through a construction project or major acquisition

504 Loan Program

- 🌀 For companies with stronger credit
- 🌀 Loan size capped at \$5.5M; typically \$5M
- 🌀 Typically financing fixed asset or real estate purchases for growth
- 🌀 **50%** of the project funding comes from the bank
- 🌀 **40%** of the project funding comes from an SBA debenture
 - Takes second position to the bank
 - Typically 150 basis points below the bank note
- 🌀 10% of the project funding is from company
- 🌀 Terms typically 10, 20 or 25 years
- 🌀 Minimum project size is \$150k - \$200k

CARES Act Overview

- 🌀 Signed by President Friday, March 27
- 🌀 \$2.2T in total funding by Treasury
- 🌀 Large businesses and specific industries targeted
- 🌀 Direct relief to individuals targeted
- 🌀 \$349B devoted to small businesses (<500 employees)
 - Primary goal of maintaining payroll – accomplished through SBA loan programs
 - Primarily expanded the 7(a) program – “Paycheck Protection”
 - Also, added a \$10,000 grant to the disaster loan program

CARES Act - Paycheck Protection Program

- 🌀 Max loan limit is \$10M (not \$5M)
- 🌀 Max Interest Rate is 4%
- 🌀 Draft legislation calls for these loans to be distributed using the existing framework for the SBA's 7(a) program-**banks**
- 🌀 SBA currently processes about \$25B in 7(a) loans annually
- 🌀 $\$350\text{B}/\$25\text{B} = 13$ times the normal volume!
- 🌀 **Expanded eligibility** in terms of business size
- 🌀 **Loan forgiveness is available** - Businesses must maintain or restore payroll to be eligible for loan forgiveness

CARES Act – Paycheck Protection Program

Eligibility:

- Business must have been in operation on Feb 15, 2020
- 500 or fewer employees, including:
 - sole proprietors, and
 - independent contractors
- Private Non-profit organizations –
 - In general, 501(c)(3) and 501(c)(19)

CARES Act - Paycheck Protection Program

Affiliation Rules

- Affiliation exists when one business controls or has the power to control another (Parent/Sub) or when a third party (or parties) controls or has the power to control both businesses (Brother/Sister)
- Control may arise through ownership, management, or other relationships or interactions between the parties.
- https://www.sba.gov/sites/default/files/affiliation_discussion_0.pdf

 Hotels and restaurants with fewer than 500 employees per location – affiliation rules waived

 Affiliation rules also waived for franchises and company that receives funding through a Small Business Investment Company (SBA-approved Venture Capital Companies)

CARES Act - Paycheck Protection Program

- 🌀 Underwriting standards for eligibility are significantly relaxed – not the same as regular SBA 7(a) loan program
 - Initial application will only require your monthly payroll costs
 - No collateral will be required
 - Current processing time for loans is 30 days, they want this program to go much faster – days not weeks
 - May take SBA a couple weeks to get process in place
 - Be patient, but be assertive. Call your banker now.
- 🌀 Concern that the system will be overwhelmed with volume – similar to disaster loans

CARES Act – Paycheck Protection Program

- 🌀 Treasury will draft regulations, so that any bank can distribute these funds
 - Expand the system
 - Currently about 1,800 banks are SBA-approved nationally
- 🌀 Each business is limited to a single loan registered to EIN and recorded by SBA.

CARES Act – Paycheck Protection Program

Formula for determining loan size:

- In business for at least a year prior to the crisis, then the max loan is equal to **2.5 times your average monthly payroll costs** during the **12 month period prior to the loan**. If your business is seasonal (such as landscaping), may choose to calculate your average monthly payroll using the period 3/1/19 to 6/30/19
- Not in business for a year, then max loan is 2.5 times your average monthly payroll between **1/1/20 and 2/29/20**.
- If you received a disaster loan between 2/15/20 and 6/30/20, and you want to refi the loan into a PPP loan, you would add the outstanding loan amount to the monthly payroll amount.

CARES Act – Paycheck Protection Program

Eligible costs for payroll

- Compensation (**Each person limited to \$100k annually**)
- Including payment for vacation, parental, family, medical or sick leave (excluding qualified sick and family leave for which a credit is allowed under Families First Coronavirus Response Act)
- Including allowance for dismissal or separation
- Including group **health care benefits/premiums**
- Including **retirement benefits** (company contributions; employee contributions included in compensation above)
- Including State or local payroll taxes (not federal)

CARES Act – Paycheck Protection Program

- 🌀 Allowable uses of loan proceeds:
 - Payroll costs
 - Mortgage payments or rent
 - Utilities
- 🌀 How much forgiven? Equal to the amount the borrower spent on the above costs during the 8-week period beginning on the date loan received (not to exceed loan proceeds)
 - Using the same definition of payroll costs used to determine loan eligibility

CARES Act – Paycheck Protection Program

How could the forgiveness be reduced?


- If there is a reduction in the number of employees
 - Based on avg FTE's per month during the 8 week period compared to the avg FTE's per month from 2/15/19 to 6/30/19 OR
- A reduction of greater than 25% in wages paid to employees.
 - 2020 payroll costs compared to 2019 payroll costs using the same calculation method
- Big exception: Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (as compared to February 15, 2020) shall not reduce the amount of loan forgiveness **IF** by June 30, 2020 the borrower eliminates the reduction in employees or reduction in wages.

CARES Act – Paycheck Protection Program

Forgiveness process:

→ Apply for forgiveness through bank

- Must verify the number of employees on payroll and pay rates,
 - 2/15/19 to 6/30/19 compared to 2/15/20 to 6/30/20
 - including IRS payroll tax filings and
 - State income, payroll and
 - Unemployment insurance filings
 - Must verify payments on covered mortgage obligations, lease obligations and utilities

 Authorized rep of business must swear and affirm that the amount that is being forgiven was used in accordance with the programs guidelines

CARES Act – Paycheck Protection Program

- 🌀 After the forgiveness period, any loan amounts not forgiven are carried forward as an ongoing loan with max term of 10 years and max rate of 4%.
 - Prin and int will continue to be deferred, for a total of 6-12 months after disbursement of the loan. Clock does not start again.
- 🌀 “For all intents and purposes this is a grant program and lawmakers want the funds to be used to pay payroll. The main goal here is to help small businesses keep their staff employed.” – Tony Wilkinson, Nat Assoc of Govt Guaranteed Lenders

CARES Act – Paycheck Protection Program

Coordination with other SBA loans:

- **May apply for PPP loans and other SBA loans simultaneously**, including EIDL (Disaster) loans, traditional 7(a) loans, 504 loans and microloans, and also receive capital from Small Bus Inv. Corps.
- May not use your PPP loans for the same purpose as your other SBA loans.
 - Example: If you use your PPP loan to cover payroll for 8 weeks, you cannot use a different SBA loan product for payroll for those same costs, although you could use it for payroll not during that period or for different workers.
- How does PPP loan coordinate with Disaster grant program and Sm Bus Debt Relief program? **May apply for PPP assuming there is no duplication in the uses of funds.**

Disaster Loans – Eligible Businesses

- 🌀 Same eligibility as Traditional SBA 7(a) Loan
- 🌀 Eligibility depends on your NAICS code (industry classification)
- 🌀 For COVID-19 loan applications, the CARES Act relaxed the eligibility and made it the same as PPP loans which is fewer than 500 employees
- 🌀 Affiliation rules apply

Disaster Loans – Eligible Businesses

- 🌀 Must have been in business prior to COVID-19 crisis.
Must be able to demonstrate financial hardship.
Primarily lost revenue.
- 🌀 Private nonprofits are eligible also
- 🌀 Typically, need to fully exhaust non-SBA loan options.
 - Not required for COVID-19 applications
 - Payment deferments from existing lenders may be requested simultaneously.
 - Apply for this loan even if you have availability under a line of credit, etc.
 - SBA does not expect you to burn through your resources.

Disaster Loans – Loan Terms

- 🌀 \$2M limit.
 - Loan processor will determine loan amount. No specified formula. Based on need and ability to repay/creditworthiness.
 - Can't be delinquent on taxes or student loans
- 🌀 Interest rate 3.75% (2.75% for non-profits)
- 🌀 Term is up to 30 years.
 - Loan processor will set the terms. Repayment term is based on ability to pay.
- 🌀 Loans under \$25,000 do not require collateral (signature loan)
- 🌀 Loans over \$25,000 require collateral
 - No personal guarantees required on loans up to \$200k
- 🌀 Loan will not be declined for lack of collateral, but requires that borrower personally pledge what is available

Disaster Loans – The Application Process

- 🌀 Online application is *highly* recommended. No cost to apply.
- 🌀 No business credit report is required.
- 🌀 The following docs are required to start the application:
 - **Electronic Loan App (Form 5 for business entities)**
 - Form 5C for sole props only
 - **Form p-019 – Supplemental information**
- 🌀 Need the following documents to complete the application
 - Tax authorization (Form 4506-T)
 - Each applicant and 20%+ partner must submit a form for their individual and business taxes
 - 50%+ affiliate also must submit tax authorization
 - Most recent business tax return must be uploaded
 - If 2019 is not available, then a balance sheet and P&L must be provided.

Disaster Loans – The Application Process

- Personal Financial Statement (Form 413)
 - 20% owners/Gen Partners
 - Can upload your own copy if you have one
- Schedule of liabilities (Form 2202)
 - Must tie out to most recent balance sheet (2019)
- Form 1368 – additional info
 - monthly sales figures – 3 years –
 - total sales figures for each year should reconcile to the sales figures on your tax return.

Disaster Loans – The Application Process

- 🌀 New website: <https://covid19relief.sba.gov/#/>
 - Form 5, Form P-019 – only forms needed to start process
- 🌀 Remaining forms may be requested by loan officer
- 🌀 Can upload forms/docs securely from your computer, as completed

Disaster Loans – The Application Process

- 🌀 **CARES Act:** \$10,000 expedited **grant** will be offered within three days of applying – added to application this weekend
- 🌀 **The advance does not need to be repaid under any circumstance**, and may be used to keep employees on payroll, to pay for sick leave, meet increased production costs due to supply chain disruptions, or pay business obligations, including debts, rent and mortgage payments.
- 🌀 If you started an application last week, you must apply again in order to request the \$10,000 disaster grant

Disaster Loans– The Application Process

Helpful Tips when Applying:

- Write your password down; you cannot retrieve it electronically; call center personnel may not be able to retrieve it.
- Do not rush through the application.
 - Be sure all needed information is completed prior to submission.
 - The biggest reason for delays in processing is due to missing information.
- Use the same contact information (business name and the name of all owners) that you use on your federal tax returns.
- If your tax returns reference other businesses that you own (affiliated companies), you must also submit those tax returns.

Disaster Loans – Processing Timeline

- 🌀 About 21 days to get approval – on average – expect delays based on demand
- 🌀 3-5 weeks to get funds from submission of application
- 🌀 First loan payment to SBA can be deferred for a year
- 🌀 So, the sooner you apply the better.

Coordination with Other CARES Act Provisions

Employee Retention Tax Credit

- Not permitted if PPP loans received
- Refundable payroll tax credit for 50% of qualified wages paid by companies to employees during this crisis
 - Available to companies whose:
 - Operations are partially or fully suspended OR
 - Gross receipts decline more than 50% compared to same quarter prior year
 - <100 employees – all employee wages qualify for the credit
 - >100 employees – only wages paid to employees when they are not providing services to the company

Coordination with Other CARES Act Provisions

Employee Retention Tax Credit

- Credit provided for only the first \$10,000 of compensation, including health benefits, paid to an eligible employee,
- For wages paid or incurred from March 13, 2020 through December 31, 2020.

Coordination with Other CARES Act Provisions

Delay of Payment of Payroll Taxes

- Not permitted if PPP loan forgiveness received
- *Delays the timing* of required federal tax deposits for certain employer payroll taxes and self-employment taxes
- Incurred between March 27, 2020 and December 31, 2020
- 50% of the deferred amount is paid by December 31, 2021
- Remainder by December 31, 2022
- No limit on the wages that are counted

Other SBA Resources

Other SBDC locations near our offices (by county):

- Medina = Summit Medina Business Alliance
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17091&subloc=0>
- Wooster – Wooster Area Chamber (KSU Stark)
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17093&subloc=1>
- Guernsey = Willet Pratt Training Center (OU Cambridge)
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17105&subloc=0>
- Cuyahoga = Cleveland Hts Public Lib (CSU)
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17085&subloc=0>
- Franklin = Columbus State
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17011&subloc=0>

Other SBA Resources

Other SBDC locations near our offices (by county):

- Lorain = Lorain Co Comm College
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17083&subloc=0>
- Allen = J A Rhodes State College
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17031&subloc=0>
- Washington = OU Marietta
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17112&subloc=0>
- Lake = Morley Library (Lakeland Co Comm College)
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17082&subloc=2>
- Tusc/Holmes – KSU Tusc - <https://www.sbdcksut.org/>
- Muskingum = Willett-Pratt Trng Ctr (OU Cambridge)
<https://clients.ohiosbdc.ohio.gov/center.aspx?center=17105&subloc=0>

CARES Act – Small Business Debt Relief

- ☉ Provides relief to any small business with non-disaster SBA loans, in particular 7(a), 504 and microloans.
 - SBA will cover all loan payments on these SBA loans, including principal, interest and fees for 6 months. This relief will also be available to new borrowers who take out loans within 6 months of March 27, 2020.
- ☉ Disaster loans are not eligible. But could refi disaster loan under PPP. Previously discussed.
- ☉ This program does not cover PPP loans (PPP loans have their own relief as part of that program)
- ☉ Microloans – limited to \$50k. Delivered through mission-based lenders. Avg. loan is \$13k.

Next Steps – Disaster loans

- 🌀 If eligible, apply for a disaster loan
- 🌀 Accept the \$10,000 grant when offered
- 🌀 Assemble your financial information/schedules
- 🌀 Ask questions – Rea & Associates, SBDCs, Lenders
- 🌀 Call your Rea representative first. They will refer to Scott, Matt or me if necessary – we will make the time.
- 🌀 Local SBDC reps are awesome!
- 🌀 Putting FAQ and resources on ReaCPA.com
 - <https://www.reacpa.com/service/covid-19-resource-center/financial-resources-for-employers/>

Next Steps – PPP loans

Next steps:

- Call your banker now
- Touch base with them every other day
- Start now calculating your average monthly payroll costs for last year; also calculate payroll costs for Feb 15, 2019 to June 30, 2019 (forgiveness of loan application)
- 2019 and 2020 YTD monthly P&L statement
- 2019 and 2020 YTD Payroll Reports
- State income, payroll and unemployment filings
- Tax ID/EIN and complete ownership information

Next Steps – PPP loans

Next steps:

- You may need some of the same information used for the disaster loan application
- If you don't have a banking relationship, may need additional information
- Be patient, yet assertive. Applications will be available soon.
- Don't give up! Ask questions!
 - Rea & Associates
 - Your banker
 - Your local SBDC rep

Questions?



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