Understanding Business Loan Options under the Coronavirus Stimulus Package

Eligibility, Options and Strategies When Applying for COVID-19 Loans

On March 27, President Donald Trump signed a coronavirus stimulus package called the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The largest economic recovery package in U.S. History, the CARES Act will spend $2 trillion on emergency financial assistance to individuals and businesses impacted by the COVID-19 (coronavirus) outbreak.

The Building Trades Employers Association (BTEA) would like to thank Grassi & Co. for producing this easy to use guide for contractors on the CARES Act. The below questions will assist members in determining their eligibility, options and strategies when applying for COVID-19 business loans.

Questions?
Please submit any questions you may have and the BTEA will make every effort to get them answered and report it to the membership. Forward those questions to dranshte@bteany.com

Q. What loan options are available to my business under the CARES Act?
A. There are two major loan programs included in the CARES Act for employers with less than 500 employees. One is the Paycheck Protection Program (PPP), which allows for loans up to $10 million that can be forgiven tax-free if employers meet certain employee retention requirements.

Q. Who is eligible for the PPP loans?
A. Business concerns and nonprofits with less than 500 employees (based on the SBA’s aggregation rules) are eligible. For this purpose, employees are defined as individuals employed on a full-time, part-time or other basis. Independent contractors, sole proprietorships and self-employed individuals are eligible, provided they meet specific criteria in the bill.

Q. How do I begin the PPP loan application process?
A. You can apply at any FDIC bank or credit union, but contacting your current banker or lender first is recommended. The application can be found here. Most lenders will want to see documentation of your 2019 annual gross revenues and payroll costs and recent IRS 941 filings. Your December financials and payroll reports will provide this information.

Q. How is the amount of PPP loans calculated?
A. The program sets the maximum loan size at 2.5 times an employer’s average monthly payroll costs (subject to a $10 million cap). Eligible payroll costs are capped at $100,000 per year.

For purposes of the loan size calculation, payroll costs include salary only and do not include healthcare benefits, retirement benefits and other compensation, as previously indicated in initial PPP guidance. Payments made to independent contractors should not be included in this calculation.

Q. Are there any exceptions for businesses with 500 or more employees?
A. Yes, NAICS code 72 employers and franchisees may have more than 500 employees total and remain eligible, as long as they have fewer than 500 employees per location. Also, if your NAICS previously had fewer than 500 employees under old SBA guidance, you may be eligible.

Q. How can I get my PPP loan forgiven?
A. Your business will need to apply for loan forgiveness, including the necessary documentation of employee retention requirements. Loans may be forgiven if businesses use the money to pay for payroll costs, mortgage interest, rent and/or utilities. The forgiven amount would be equal to the amount actually paid for these expenses during the 8 weeks following disbursement of the loan.

Q. What are the provisions of the SBA’s Economic Injury Disaster Loans (EIDLs)?
A. The EIDL program allows for loans of up to $2 million at 3.75% interest (2.75% for NFPs) for companies with less than 500 employees. The loans are offered with up to a 30-year term. Unlike the PPP loans, they are not forgivable and require collateral and traditional underwriting.

Q. Are there any prepayment or other fees associated with PPP loans?
A. There will be no prepayment penalty for any payments made in advance.

Q. What if I have an existing credit facility?
A. A company cannot be denied for a PPP loan based on “credit elsewhere” (meaning availability of credit from non-federal sources). However, it is recommended that a borrower dialogue with existing creditors before submitting an application, since many credit facilities explicitly prohibit debt from other parties.

Q. Are there any prepayment or other fees associated with EIDL loans?
A. There are no fees associated with EIDLs.

Q. What are the terms of the PPP loan if I am approved?
A. The loan will have a maturity of 2 years from the date of loan origination and a fixed interest rate of 1.0%. The first payment of principal and interest will be deferred 6 months to 1 year.

Q. Can my EIDL loan be refinanced in the PPP loan?
A. A loan made under the SBA’s EIDL program on or after January 31, 2020, may be refinanced as part of a covered loan under this new program as soon as these new loans are made available.