

CARES Act

Small Business Loan Programs

CARES ACT

Summary of Relevant Provisions for Advisors and their clients that work with SEI

On March 27, 2020, President Donald Trump signed into law a \$2 trillion stimulus package titled the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is intended to lessen the impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses, by providing various forms of emergency relief. The CARES Act is the third relief package in response to COVID-19 and the largest package in American history. The CARES Act covers a broad range of stimulus measures including:

- tax recovery rebates of up to \$1200 per individual and an additional \$500 per child, subject to limits;
- temporary expansion of unemployment benefits;
- changes to the rules governing employee benefit plans and IRAs, business income, losses and charitable contributions;
- various loan programs and grants for small businesses;
- employment-related tax credits and tax deferrals; and
- loans, grants and other forms of assistance to distressed industries.

This summary focuses on the relevant parts of the CARES Act that we believe are of interest to Advisors and their clients that work with SEI.

SMALL BUSINESS LOAN PROGRAMS

The CARES Act includes several provisions intended to assist small businesses with addressing the impact of COVID-19. Among other things, the Act introduces a new loan program with forgiveness eligibility under the Small Business Administration, adds funding for emergency grants in connection with an existing loan program, and provides payment relief for existing borrowers of small business loans. These programs are discussed in detail below.

Paycheck Protection Program

What is the Paycheck Protection Program?

The CARES Act allocates \$349 billion to establish a new loan program under the Small Business Act called the Paycheck Protection Program (PPP). The PPP is designed to assist businesses with covering payroll costs, and expands the eligibility for small business loans to other businesses generally with 500 or fewer employees. The highlight of this program is that the loans may be fully or partially forgiven depending on the use of the loan proceeds and the

ability of the business to maintain full-time employees and salaries. Commonly asked questions and answers about this program are included below.

Who is eligible to apply for a PPP loan?

In addition to a “small business concern,” as defined under the Small Business Act. The CARES Act expands eligibility to

- any other business concern that employs no more than the greater of:
 - 500 employees or
 - if applicable, the size standard in number of employees established by the Small Business Administration for the industry in which your business operates.

This includes sole proprietors, independent contractors and self-employed individuals.

However, companies with a common owner (e.g., subsidiaries of larger firms), even if they individually have 500 or fewer employees, might not qualify based on their affiliates.

What are the criteria to obtain a PPP loan?

The Paycheck Protection Program requires that the borrower was and continues to be adversely impacted by COVID-19. In addition, the small business must certify in good faith that, among other things:

- the uncertainty of economic conditions at the time of application makes the loan request necessary;
- the funds received will be used for the allowed purposes; and
- the borrower does not have an application pending for, and between February 15 and December 31, 2020 has not received, a loan under the program for payroll costs and duplicative of amounts applied for or received under the PPP.

When is the deadline to apply for a PPP loan?

The program deadline is June 30, 2020. The covered period for the program is retroactive, however, beginning February 15, 2020. The period from February 15, 2020 to June 30, 2020 is considered the “covered period.”

How do I apply for a PPP loan?

You can apply for a PPP loan through an SBA-approved lender.

When must a lender notify me as to whether I have been approved for a PPP loan?

Once you submit a completed application, the CARES Act requires the lender to

- issue a decision within 60 days; and
- make the first disbursement of the loan no later than 10 calendar days from the date of approval.

How much can I borrow under the PPP?

For businesses that:

- were in operation from February 15, 2019 to June 30, 2019, your max loan amount is equal to 250 percent of your average monthly payroll costs during the year preceding the loan.
- were not in operation from February 15, 2019 to June 30, 2019, your max loan amount is equal to 250 percent of your average monthly payroll costs between January 1, 2020 and February 29, 2020.

In any event, the max loan amount for any business cannot exceed \$10 million. Here are a few sample calculations provided by the SBA:

Example A:

- No employees make more than \$100,000
- Annual payroll: \$120,000
- Average monthly payroll: \$10,000
- Multiply by 2.5 = \$25,000
- Maximum loan amount is \$25,000

Example B:

- Some employees make more than \$100,000
- Annual payroll: \$1,500,000
- Subtract compensation amounts in excess of an annual salary of \$100,000: \$1,200,000
- Average monthly qualifying payroll: \$100,000
- Multiply by 2.5 = \$250,000
- Maximum loan amount is \$250,000

What is the interest rate on a PPP loan?

The CARES Act set a maximum interest rate of 4%, but the SBA has determined that PPP loans will have a maturity of 2 years and an interest rate of 1%.

What expenses can I use PPP loan proceeds to cover?

The loans are allowed to be used for any allowable use under the Small Business Act, but may also be used for the following during the covered period: (1) payroll costs;¹ (2) costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave and insurance premiums; (3) employee salaries, commissions or similar payments; (4) payments of interest on any mortgage obligation (which cannot include any prepayment of or payment of principal on a mortgage obligation); (5) rent (including rent under a lease

¹ Among other things, payroll costs do not include (1) any compensation of an employee whose principal place of residence is outside of the United States; or (2) the compensation of an individual employee with an annual salary of more than \$100,000.

agreement); (6) utilities; and (7) interest on any other debt obligations that were incurred before the covered period.

In addition, the SBA has released guidelines requiring that at least 75 percent of the PPP loan proceeds must be used for payroll costs.

What fees will I be charged in connection with a PPP loan? Am I required to put up collateral or a personal guarantee?

- No fees
- No collateral or personal guarantees
- No prepayment penalty

Does repayment of a PPP loan begin immediately?

No. During the covered period, the SBA will require lenders to defer payments for at least 6 months.

What is loan forgiveness?

- PPP loans may be fully or partially forgiven, meaning that the borrower may not be required to repay the full loan or a portion of the loan.
- In order to be afforded loan forgiveness, a PPP loan must be used to pay for eligible expenses (e.g., (1) payroll, group health care benefits, employee salaries, mortgage payments, rent) that are incurred eight weeks after receipt of the loan. The eight-week period begins on the date the lender makes the first disbursement of the PPP loan.
- In addition, forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.
- Loans that are forgiven are not taxable.

Economic Injury Disaster Loans and Advances

What is the Economic Injury Disaster Loan program?

The CARES Act allocates \$10 billion to create loan advances as part of the SBA's existing Economic Injury Disaster Loans program for small business owners. EIDLs are administered directly through the SBA, and are usually available only to small businesses that are located in areas where a disaster has been declared. However, Congress is expanding this program to all 50 states and U.S. territories due to the national impact of COVID-19.

Once a business successfully completes an application for an EIDL and requests a loan advance, the advance is required to be sent to the business within three days. The EIDLs program does not typically issue loan advances; however, the CARES Act establishes one million loan advances in the amount of \$10,000 per small business. These loan advances are essentially grants because the small business is not required to repay any advance – this is the case even if the small business is never approved for the EIDL itself. Commonly asked questions and answers about this program are included below.

Who is eligible to apply for an EIDL?

In addition to “small business concerns,” as defined under the Small Business Act. The CARES Act expands eligibility to any other business concern that employs no more than the greater of:

- 500 employees or
- if applicable, the size standard in number of employees established by the Small Business Administration for the industry in which your business operates.

This includes sole proprietors, independent contractors and self-employed individuals.

What are the criteria to obtain an EIDL?

Businesses must meet the eligibility requirements noted above and certify to their eligibility.

When is the deadline to apply for an EIDL?

The program ends on December 31, 2020.

How do I apply for an EIDL?

You can apply for an EIDL (and a loan advance) directly through the SBA.

When must a lender notify me as to whether I have been approved for an EIDL?

- EIDL approval can take up to three (3) weeks and disbursement can take up to five (5) days, which is why Congress created loan advances under this program.
- Loan advance proceeds are supposed to be received within three (3) days of completing the application and requesting a loan advance.

How much can I borrow?

The maximum amount that a small business can borrow under this program is \$2 million. The amount for a loan advance is \$10,000.

What is the interest rate on an EIDL?

EIDLs have maturities of up to 30 years and an interest rate of 3.75% for small businesses.

What expenses can I use EIDL proceeds to cover?

These loans are allowed to be used to pay fixed debts, payroll, accounts payable and other bills that cannot be paid because of the impact of COVID-19.

The loan advance may be used for the same purposes as the loan, but also to:

- keep employees on payroll;
- pay for sick leave;
- meet increased production costs due to supply chain disruptions; or
- pay business obligations, including debts, rent and mortgage payments.

Am I required to make a personal guarantee?

As long as the amount of the EIDL and loan advance do not total more than \$200,000, a small business is not required to provide a personal guarantee.

Does repayment of an EIDL begin immediately?

Small businesses may be able to defer payments for up to 4 years.

Is loan forgiveness offered for EIDLs?

- If a small business receives a loan advance of \$10,000, that amount is effectively a grant that does not need to be repaid.
- Any remaining balance of an EIDL would need to be repaid.
- EIDLs offer friendly terms for repayment based on a borrower's ability to pay, with maximum terms of up to 30 years.

Can I apply for more than one SBA loan program?

Yes. Businesses may apply for more than one SBA loan program. However, businesses must make sure that the proceeds from EIDL and PPP loans are not:

- Duplicative; and
- used for the same purpose.

SBA Debt Relief Program

What is the SBA Debt Relief Program?

The CARES Act also allocates \$17 billion in emergency relief for the SBA to make loan payments for borrowers. Commonly asked questions and answers about this program are included below.

What loans are covered under the Debt Relief Program?

This program covers the following types of SBA loans, including current loans and new loans issued prior to September 27, 2020:

- 7(a) loans (excluding PPP loans and EIDLs);
- 504 loans; and
- microloans.

What does the program cover?

The program covers payment for six months, including:

- Principal;
- Interest; and
- any fees.

How do I enroll in the program?

There is no need to enroll. The SBA will automatically make payments on your behalf.

When will the SBA begin making payments on my behalf?

For covered loans obtained prior to March 27, 2020 and

- in REPAYMENT status, the SBA will make payments for 6 months beginning with the next payment due.
- in DEFERRED status, the SBA will make payments for 6 months beginning with the next payment due after deferment ends.

Independent Advisor Solutions by SEI, a strategic business unit of SEI Investments Company (SEI).

For additional information regarding the CARES Act, please visit <https://www.congress.gov/bill/116th-congress/house-bill/748/text>

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