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TO: FEROX CLIENTS

FROM: FEROX STRATEGIES

DATE: MARCH 30, 2020

RE: COVID-19: SMALL BUSINESS FEDERAL AID OVERVIEW AND MORE RESOURCES

Many Ferox clients have sought information regarding federal relief for small businesses as they weather the immediate and long-term economic fallout of COVID-19. Below is an updated survey of federal small business aid programs, as enhanced by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) signed into law on March 27, 2020.¹

COVID-19 Specific Loans and Grant for Small Businesses:

- [Paycheck Protection Program with loan forgiveness](#) (Available April 3 through June 30, 2020)
- [Economic Injury Disaster Loan with Emergency Grant](#) (Available now through December 31, 2020)
- [Enhanced SBA Express Loan](#) (Available now through December 31, 2020)
- [SBA Debt Relief](#) (available now for existing loans and new loans taken out before September 24, 2020)

COVID-19 Specific Tax Relief for Small Businesses:

- [Employee Retention Tax Credit](#)
- [Payroll Tax Delay](#)
- [Paid Sick and Family Leave Tax Credits](#)

Non-emergency loan programs (eligible for SBA Debt Relief):

- [7\(a\) Loans](#)
- [504 Loans](#)
- [Microloans](#)

Readers may reach out to their **local SBA district office or SBA-sanctioned assistance center** for help finding resources, as well as offering training and mentoring. These local centers can be found on <https://www.sba.gov/local-assistance/find/>

Each of these programs prohibit “double-dipping,” using multiple forms of aid to support the same expenses. However, multiple forms of aid can cover different expenses: for example, an eligible business can use tax credits for paid leave and obtain aid like a Paycheck Protection loan to cover other costs like rent and utilities. More on each program can be found below.

¹ Pending legislation and executive action could reshape these federal programs, and Ferox does not intend in the below memo to offer legal or financial advice. Readers are urged to consult with their CFO, lenders, general counsel, and other relevant staff. Readers are also encouraged to check SBA and lenders’ websites for further detail as new programs are implemented.



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COVID-19-Specific: SBA Paycheck Protection Program loan with forgiveness

The Paycheck Protection Program is a new forgivable loan program created in the CARES Act. Congress has allocated about \$350 billion to the program. Borrowers do not need to show collateral or demonstrate that they can't obtain credit elsewhere. Lenders can issue loans if they determine that an applicant operated with employees or contractors as of February 15; they do NOT need to assess applicants' ability to repay. Other features:

- Loans issued will equal 250% of an applicant's average monthly payroll, up to \$10 million
- Interest rates top out at 4%, loans last a maximum of ten years, and the SBA guarantees 100% of the loan
- Loans can cover rent, payroll, health benefits, pre-existing mortgage and debt interest, utilities
- **FORGIVES dollars spent within eight weeks after the loan origination date on eligible expenses including:**
 - Payroll (including salary, commissions, health benefits)
 - Interest on any mortgage incurred prior to February 15, 2020
 - Rent on any lease in force prior to February 15, 2020
 - Utilities for which service began before February 15, 2020
 - Amount forgiven declines if the applicant terminates employees or cuts their compensation

WHO IS ELIGIBLE FOR THE PAYCHECK PROTECTION PROGRAM?:

- Any business, 501(c)3 nonprofit, veterans service organization, or tribal business with 500 or fewer employees OR falling within [SBA size standards for small business](#), whichever is higher
- Sole proprietors, independent contractors, and eligible self-employed workers
- Hospitality and food service chains with 500 or fewer employees per physical location – SBA affiliation rules are waived to ease franchisees' access to these loans.

HOW TO APPLY: Small businesses should contact their lenders immediately: SBA-approved private banks and lenders will administer the program with SBA's backing. Later, application for forgiveness will also be done through the same lender. [Use SBA's Lender Match to find an approved lender near you.](#)

TURNAROUND TIME: Congress has instructed the SBA and lenders to move as fast as possible; however, because this is a newly-created program, we don't yet have a firm grasp of the average timeline.

IMPORTANT DATES: Treasury Secretary Steve Mnuchin has said Paycheck Protection will be available by Friday, April 3. **Loans will not be issued after June 30, 2020.**

NOTE: Eligible businesses can get a Paycheck Protection loan AND an Economic Injury Disaster Loan/Grant (see below). **However, the new loans cannot be used for the same expenses.** Further, those who take out an EIDL between February 15 and June 30, 2020 can refinance that loan into a Paycheck Protection loan. Finally, the Paycheck Protection Program cannot be doubled up with the [CARES Act's employee retention tax credit](#).



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COVID-19 Specific: SBA Economic Injury Disaster Loan (EIDL) and Emergency Grants

The EIDL is a pre-existing SBA program Congress has enhanced to respond to COVID-19. Congress has allocated about \$10 billion for this program. Features of the EIDL and the new Emergency Grant:

- The EIDL offers up to \$2 million in low-interest loans to businesses who can't obtain credit elsewhere to meet financial obligations and operating expenses that could have been met had a disaster not occurred.
- The loan amount will be based on an organization's actual economic injury and financial needs.
- **The CARES Act created within the EIDL a new Emergency Grant: those applying for an EIDL can request an emergency \$10,000 grant to keep employees on payroll, deal with supply chain disruptions, or pay debts, rent, and mortgage payments. This grant does not need to be repaid. To get the grant, applicants must first apply for the EIDL.**
 - Note: the EIDL Emergency Grant is available to otherwise-eligible businesses and non-profits who were in operation before January 31, 2020.

WHO IS ELIGIBLE FOR THE EIDL AND EMERGENCY GRANT?:

- Small businesses and non-profits with 500 or fewer employees OR [meeting SBA's size standards for small business \(whichever is higher\)](#)
- Sole proprietorships, with or without employees
- Independent contractors
- Cooperatives and employee owned businesses
- Tribal small businesses

HOW TO APPLY: Unlike the Paycheck Protection Program and most SBA loans, the EIDL and Emergency Grants are available directly from the SBA. Online application: <https://disasterloan.sba.gov/ela/>

TURNAROUND TIME: Emergency Grants within EIDL are meant to be distributed within three days of an applicant submitting a request. For the overall EIDL, [the SBA told The Dallas Morning News on March 13](#) that it works to process applications "as quickly as possible" and that loan processing typically takes two to three weeks, with disbursement following within a few days of receiving the signed loan closing documents.

IMPORTANT DATES: Expanded eligibility for the EIDL as well as Emergency Grant created under the EIDL are **available from January 31, 2020 – December 31, 2020**. The grants are backdated to allow those who have already applied for EIDLs before the CARES Act to be eligible to request a grant.

NOTE: Businesses can get a Paycheck Protection loan AND an Economic Injury Disaster Loan/Grant (see above). **However, the new loans cannot be used for the same expenses.** Further, those who take out an EIDL between February 15 and June 30, 2020 can refinance that loan into a Paycheck Protection loan.



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COVID-19 Specific: Enhanced Small Business Administration Express Loan

The SBA Express Loan is another pre-existing SBA program Congress has boosted to respond to COVID-19. However, the underlying Express Loan is designed more to support long-term business growth, rather than keeping businesses afloat during an emergency. Features of the Express Loan:

- Supports both short and long-term working capital (accounts payable, purchasing inventory, construction financing), purchase of real estate or equipment, starting or expanding a business, or refinancing existing debt.
- Interest rate, term, and collateral negotiated by the lender; 50% guaranteed by the SBA
- The Express Loan features quick turnaround time: 36 hours. If approved, funds become available to the business owner within 90 days.
- The Express Loan typically is capped at \$350,000; however, **Congress has increased this limit to \$1 million through December 31, 2020.**
- **This loan is eligible for COVID-19 Small Business Debt Relief (see below): the SBA will pay all principal interest, and fees for six months if the loan pre-dates March 27, 2020 or is taken out by September 24, 2020.**

WHO IS ELIGIBLE FOR THE EXPRESS LOAN?:

- [Applying businesses must meet SBA size standards](#) to qualify as a small business, be based in the U.S., be able to repay, and have a sound business purpose as assessed by their lender.

HOW TO APPLY: The Express Loan is administered by SBA-approved banks and lenders – applicants should contact their local SBA-approved lender. [Use SBA's Lender Match to find an approved lender near you.](#)

TURNAROUND TIME: The Express Loan features quick turnaround time: 36 hours. If approved, funds become available to the business owner within 90 days.

IMPORTANT DATES: The Express Loan's increased \$1 million cap is in effect through December 31, 2020. Borrowers should also bear in mind that congressionally-enacted [Small Business Debt Relief](#) for COVID-19 is only available for Express Loans if they pre-date COVID-19 or if they're taken out by September 24, 2020.



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COVID-19 - Specific: SBA Small Business Debt Relief

The CARES Act also created relief for borrowers who already held non-disaster SBA loans before COVID-19. This relief does NOT apply to the emergency-focused [Paycheck Protection Program](#) and [Economic Injury Disaster Loan](#) (see above). For six months, the SBA will pay all principal, interest, and fees on all existing SBA loan products, including [7\(a\)](#), [504 Loans](#), [Express Loans](#), and [Microloan](#) programs (see below). **This relief will also be available to new borrowers who take out these covered loans within six months of March 27, 2020 (September 24, 2020).**



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COVID-19 Specific: Employee Retention Tax Credits

The CARES Act created a new tax credit to incentivize employee retention at businesses impacted by COVID-19 or related government-ordered closures. Businesses will get a 50% employee retention credit on wages for employees who are furloughed or have their hours cut from March 13-Dec 31 during a COVID-19 related shutdown order or following COVID-19 decline in business.

- For employers with 100 or fewer fulltime employees, all employee wages are eligible for the credit, regardless of whether an employee is furloughed.
- For employers with more than 100 full-time employees, the credit is based on wages paid to employees when they're furloughed or had their hours cut due to COVID-19. The credit covers the first \$10,000 of compensation per employee, including health benefits.
- Employers **MAY NOT** use the credit for wages for which they also receive a credit under:
 - The Work Opportunity Tax Credit
 - Paid leave credit established by the 2017 Tax Cuts and Jobs Act
 - Wages covered by paid leave credits established under the Family First Coronavirus Response Act (FFCRA) passed into law on March 18, 2020.

WHO IS ELIGIBLE FOR THE EMPLOYEE RETENTION CREDIT?:

- Employers, including non-profits, whose operations have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings.
- Employers who have experienced a greater than 50% loss in quarterly receipts, measured on a year-over-year basis, due to COVID-19.
- **IMPORTANT: Employers who take out a loan under the Paycheck Protection Program may not use this retention credit.**

HOW TO APPLY: The IRS will issue guidance soon on how businesses can claim the credit; it is designed to be a quarterly payroll tax liability and is fully refundable. There will also be options to receive advance payments.



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COVID-19 Specific: Payroll Tax Payment Delay

Employers generally pay a 6.2% Social Security tax and a 1.49% Medicare on employee wages. Self-employed workers pay a similar tax (SECA). This provision would allow taxpayers to defer paying the employer portion of FICA (Social Security and Medicare) and half of SECA taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022.

WHO IS ELIGIBLE FOR THE PAYROLL TAX PAYMENT DELAY?

- Employers and self-employed workers paying covered payroll taxes
- **IMPORTANT: Employers who take out a forgivable loan under the [Paycheck Protection Program](#) may not take this delay.**

HOW TO APPLY: The IRS will issue guidance soon: stay tuned for further guidance at www.irs.gov.



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COVID-19 Specific: Paid Sick and Family Leave Tax Credits

Congress created COVID-19-specific paid family and paid sick leave requirements in the Family First Coronavirus Response Act (FFCRA) passed into law on March 18, 2020. The FFCRA created tax credits to offset paid family leave and sick leave under the law.

[As outlined in this Department of Labor poster](#), covered employers must offer up to two weeks of paid (80 hours of full-time, or a part-time employee's equivalent). [Please consult with the poster for specifics on pay levels applicable to different situations.](#)

Congress then made further amendments to this same program in the CARES Act, most notably:

- Allowing employers to collect paid leave credits in advance, rather than at the end of the year.
- Requiring Treasury to waive penalties for employers who can't make payroll waiting for paid leave-related credits.
- Allowing employees who have worked at an employer for more than 30 days, and then laid off on or after March 1, 2020, to still be eligible to receive family leave benefits if they're rehired.

The new FFCRA paid sick leave and family leave program takes effect April 1, 2020.

WHO IS ELIGIBLE FOR THE COVID-19 PAID SICK AND FAMILY LEAVE TAX CREDITS?

- Generally, employers with fewer than 500 employees must offer paid family and sick leave under the FFCRA, and will qualify for the credit to offset covered leave taken.
- The Department of Labor will also soon issue regulations setting procedures for businesses with less than 50 employers to request exemption from the FFCRA's paid family and sick leave requirements.
- **IMPORTANT: Employers who take out a forgivable loan under the [Paycheck Protection Program](#) may not receive this credit.**

HOW TO APPLY: The IRS will issue guidance soon on how to claim the advance credits: stay tuned for further guidance at www.irs.gov. The Department of Labor will issue updated guidance to employers at <https://www.dol.gov/agencies/whd/pandemic>.

[Previous guidance issued by the DOL can be found here.](#)



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Non-disaster loan: Small Business Administration 7(a) and variants

The 7(a) loan guarantee program is the SBA's primary program for providing financial assistance to small for-profit businesses, and can be used for working capital. It is designed to support long-term business growth rather than for emergencies. There are several variants of the 7(a) loans targeted to specific purposes. Features:

- SBA 7(a) loans offer a maximum loan of \$2 million, with SBA loan guarantee of no more than \$1.5 million (75%).
- The terms of SBA 7(a) loans are 25 years for real estate and equipment and seven years for working capital.
- Interest rates are based on the prime rate, the size of the loan, and the maturity of the loan.
- **This loan is also eligible for COVID-19 Small Business Debt Relief: the SBA will pay all principal interest, and fees for six months if the loan pre-dates March 27, 2020 or is taken out by September 24, 2020.**

In addition to the main 7(a) loan described, several subtypes are available for purposes including facilitating international exports, supporting veteran-owned businesses, and to help businesses meet seasonal costs. Terms of these loans may vary slightly from the main 7(a) program, but **all are also available for COVID-19 Small Business Debt Relief if these loans pre-date March 27, 2020 or are taken out by September 24, 2020.** [A full description of each of the 7\(a\) loan sub-types can be found here.](#)

WHO IS ELIGIBLE FOR 7(a) LOANS?:

- [Applying businesses must meet SBA size standards](#) to qualify as a small business, be based in the U.S., be able to repay, and have a sound business purpose as assessed by their lender.
- Subtypes of the 7(a) loans may have slightly different eligibility terms.

HOW TO APPLY: The 7(a) loan and its variants are administered by SBA-approved banks and lenders – applicants should contact their local SBA-approved lender. [Use SBA's Lender Match to find an approved lender near you.](#)

TURNAROUND TIME: The 7(a) loan reportedly takes 60-90 days to process, though this will vary by lender and demand.

IMPORTANT DATES: The 7(a) loan has no expiration date. However, borrowers should bear in mind that congressionally-enacted [Small Business Debt Relief for COVID-19](#) is only available for 7(a) loans if they pre-date COVID-19 or if they're taken out by September 24, 2020.



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Non-disaster loans: SBA 504 loans

The 504 loan program provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. It cannot be used for working capital. Further, the 504 Loan is intended as a long-term support program, not emergency relief. Features:

- Maximum loan amount of \$5 million. Interest rates align with the current market rate for 5-year and 10-year U.S. Treasury issues. Loan maturities of 10 and 20 years are available. Fees may be financed with the loan.
- 504 Loans are typically structured with SBA providing 40% of the total project costs, a participating lender covering up to 50% of the total project costs, and the borrower contributing 10% of the project costs. Under certain circumstances, a borrower may be required to contribute up to 20% of the total project costs.
- 504 Loans must be used for fixed assets (and certain soft costs), including land purchases and improvements; purchase, renovation, and construction of buildings; machinery purchases; and refinancing relevant debt.
- Generally, a business receiving a 504 loan must create or retain one job for every \$65,000 guaranteed by the SBA. Small manufacturers must create or retain a ratio of one job for every \$100,000.
- **This loan is eligible for COVID-19 Small Business Debt Relief: the SBA will pay all principal interest, and fees for six months if the loan pre-dates March 27, 2020 or is taken out by September 24, 2020.**

WHO IS ELIGIBLE FOR 504 LOANS?:

- [Applying businesses must meet SBA size standards](#) to qualify as a small business, be based in the U.S., be able to repay, and have a sound business purpose as assessed by their lender.
- Under the 504 Program, a business qualifies if it has a tangible net worth not more than \$15 million, and an average net income of \$5 million or less after federal income taxes for the preceding two years prior to application.

HOW TO APPLY: Applicants seek a 504 Loan through an SBA-approved Certified Development Company, a local nonprofit promoting economic development. [Use SBA's Lender Match to find an approved CDC near you.](#)

TURNAROUND TIME: Varies by lender and program demand.

IMPORTANT DATES: The 504 program has no expiration date. However, borrowers should bear in mind that congressionally-enacted [Small Business Debt Relief for COVID-19](#) is only available for 504 loans if they pre-date COVID-19 or if they're taken out by September 24, 2020.



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Non-disaster loans: SBA Microloans

SBA's Microloan program is designed for faster turnaround and more flexible support to growing businesses. Microloans can be used for working capital, inventory, supplies, machinery, and furniture at qualifying small businesses. More features:

- Microloans are offered through community-based lenders (Microlender Intermediaries) which, in turn, make loans to eligible borrowers in amounts starting at \$5000 up to a maximum of \$50,000. The average loan size is about \$14,000.
- The interest rates for SBA Microloans vary from 6.5% to 13%, with a maximum repayment period of six years,
- **This loan is eligible for COVID-19 Small Business Debt Relief: the SBA will pay all principal interest, and fees for six months if the loan pre-dates March 27, 2020 or is taken out by September 24, 2020.**

WHO IS ELIGIBLE FOR MICROLOANS?:

- [Applying businesses must meet SBA size standards](#) to qualify as a small business, be based in the U.S., be able to repay, and have a sound business purpose as assessed by their lender.
- Applications are submitted to the local intermediary and all credit decisions are made on the local level, so there is a great deal of variation in exact requirements, terms, and geographic availability.
- Applicants may be required to fulfill training or planning requirements while applying for a Microloan.

HOW TO APPLY: Microloan intermediaries can be found on the [SBA's Lender Match Tool](#).

TURNAROUND TIME: Varies by lender and program demand.

IMPORTANT DATES: The Microloan program has no expiration date. However, borrowers should bear in mind that congressionally-enacted [Small Business Debt Relief for COVID-19](#) is only available for Microloans if they pre-date COVID-19 or if they're taken out by September 24, 2020.



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State, local, private sector assistance

Though outside of the scope of this memo, several states and even local governments offer aid to coronavirus-impacted small businesses. In California, for example, the [Infrastructure and Economic Development Bank \(IBANK\)](#) offers the:

- Disaster Relief Loan Guarantee Program: loan guarantees up to 95% for small business borrowers who were impacted by disasters or public safety power shutoffs and who need term loans or lines of credit for working capital.
- Jump Start Loan Program: loans from \$500 to \$10,000 to low-wealth entrepreneurs in declared disaster and emergency areas.

Still other resources may lie in private non-profit organizations. San Antonio, Texas-headquartered [LiftFund](#), for example, is a private charitable organization offering small business loans ranging from \$500 to \$1 million, with operations across the Southeast.

For assistance finding state and local small business support, readers are urged to contact their local SBA district office or SBA-sanctioned assistance center for help. These can be found on <https://www.sba.gov/local-assistance/find/>

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