ProServiceHAWAII

Enhanced SBA Loans with the CARES Act

How the SBA Economic Injury Disaster Loan (EIDL) and the Paycheck Protection Program (PPP) from the CARES Act can help employers cover payroll and more.

Featuring advice from the HR experts at ProService Hawaii:

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What's Inside?

CARES Act & SBA Loans Overview

Many businesses are feeling the impact of COVID-19 and are asking the question, *"How do I ensure I have sufficient cash to sustain payroll and run my business when my sales have dropped?"*

The answer: a Small Business Administration (SBA) loan.

An SBA (Small Business Administration) loan is a loan for small businesses that is partially guaranteed by the government which helps eliminate some of the risk for the financial institution who is granting the loan. By reducing the risk of the loan (up to 80-85%), small businesses are able to acquire loans that traditional banks might have previously deemed too risky.

Here's *even better* news with the CARES Act. Under the new Coronavirus Aid, Relief, and Economic Security (CARES) Act, another SBA loan program option called the Paycheck Protection Program (PPP) has emerged.

There are now two types of SBA loans available to you during the COVID-19 pandemic:

- Option 1: SBA Economic Injury Disaster Loan (EIDL)
- Option 2: Paycheck Protection Program (PPP) Loan

While details on how to apply for a PPP loan are still being finalized, there are two key points to highlight:

- **Loan forgiveness under PPP:** For the first 8-weeks after your loan origination, the part of your PPP loan used for payroll, cash tips, utilities, rent and interest on mortgage will be forgiven. Any amounts not forgiven, payments on principal and interest are deferred for 6 months.
- **Immediate Advance:** Under the PPP, if you applied for an EIDL you may request an immediate advance of up to $10,000 (within 3 days of request) on the EIDL application. This $10,000, if used for payroll and other business expenses, does not have to be repaid, even if you are denied the EIDL.

Let's dig in.

OPTION 1:

SBA Economic Injury Disaster Loan (EIDL)

The United States Small Business Administration (SBA) provides low-interest (3.75% for businesses, 2.75% for not-for-profits) Economic Injury Disaster Loans (EIDL).

These loans of up to $2 million are intended to help cover normal operating expenses (payroll, inventory, fixed debt, etc.) that you would otherwise have been able to pay were it not for the Coronavirus. Your loan amount will be based on your actual economic injury and financial needs. It is not tied to property damage. The loan repayment term is determined by your ability to repay the loan.

You will be eligible for this loan only if you have exhausted all available sources of funding elsewhere. For example, if you still have an open line of credit or business credit card, you do not qualify.

Here's how to determine if an SBA EIDL is for you:

- Identify your immediate cash needs and demands.
- Calculate the cash you need to cover your business's core operations for at least the next 45 days.
- Run and update each week a cash flow forecast to monitor your short-term cash position carefully.
- If you do not have sufficient cash in the bank to cover these 45 day expenses, consider the following actions:
    - Collect on accounts receivables—now is not the time to let others hold onto the cash that is rightfully yours.
    - Draw on your existing line of credit (if you already have one) to establish at least a 45-days' worth of cash reserves. Consult your banker to determine if it makes sense to hold an even larger buffer.
    - Apply for an SBA Disaster Loan.

How to apply for an SBA EIDL:

You can apply online via the SBA website. There are 3 SBA forms that will be required (SBA Form 5, SBA Form 413, and SBA Form 2202) in addition to other information listed below. These forms are provided electronically/online as part of the SBA online application.

- Loan application (SBA Form 5), completed and signed. This is electronic/online in the portal.
- Tax Information Authorization (IRS Form 4506-T), completed and signed by each applicant, each principal owning 20 percent or more of the applicant business, each general partner or managing member; and, for any owner who has more than 50 percent ownership in an affiliate business. Affiliates include, but are not limited to, business parents, subsidiaries, and/or other businesses with common ownership or management
- Complete copies, including all schedules, of the most recently filed Federal income tax returns for the applicant business; an explanation if not available
- Personal Financial Statement (SBA Form 413) completed, signed, and dated by the applicant, each principal owning 20 percent or more of the applicant business, and each general partner or managing member
- Schedule of Liabilities listing all fixed debts (SBA Form 2202 may be used)

Post-application process:

Once you have submitted your documents, the SBA will review your materials and estimate your total loss. A loan officer will determine your eligibility and possibly request additional information or documentation. The goal is to arrive at a decision within 2-3 weeks of your application submission.

Loan Closing and funds disbursement:

Your loan closing documents will be provided for your signature. Once signed documents are received the initial disbursement of a maximum of $25,000 will be disbursed. Subsequent disbursements will be scheduled until you receive the full loan amount.

For additional information:

Contact the SBA disaster assistance customer service center. Call 1-800-659-2955 (TTY: 1-800-877-8339), email disastercustomerservice@sba.gov, or visit the SBA Disaster Loan Assistance website at disasterloan.sba.gov/ela. Please note that due to the large number of requests, you may experience delays on the site and long hold times.

OPTION 2 :

Paycheck Protection Program (PPP)

The Paycheck Protection Program (PPP) is a component of the CARES Act and provides small businesses harmed by COVID-19 between February 15 2020 to June 30, 2020, with zero-fee loans of up to $10 million.

PPP loans are available until June 30, 2020 and loans will have an interest rate of .5% and maturity of 2 years. These loans can help you cover payroll and other operating expenses with up to 8 weeks of payroll, mortgage interest, rent, and utility costs forgiven. For any amounts not forgiven, payments on principal and interest are deferred for 6 months.

4 Highlights of a PPP loan:

#1: It waives many of the usual SBA loan requirements:

1. No borrower or lender fees
2. Removes the “Credit Elsewhere” Test—no need to try and get a loan from an alternative source before applying for an SBA loan
3. No collateral or personal guarantee required
4. Underwriting standards are simplified—applicants will provide “good faith” attestations that they need money because of current economic conditions due to COVID-19, the loan will be used to retain workers and maintain payroll costs, and they are not receiving duplicative funds for the same uses from another SBA loan.

#2: It expands the definition of eligible borrowers:

Not only are businesses with fewer than 500 employees eligible, but now 501(c)(3) nonprofits, certain veterans’ organizations, sole proprietors, independent contractors and self-employed individuals may apply for a PPP loan.

- If you are in the hotel and restaurant industry (NAICs code begins with “72”) or operating a franchise, the 500 employee rule is applied on a per physical location basis.

- Maximum loan amount is enough to cover an equivalent of **payroll costs** for 2 ½ months: Maximum loan amount can be up to 2.5x the borrower's monthly average payroll costs incurred during the year, not to exceed $10 million. For businesses that were not operational in 2019, the maximum loan amount is 2.5x the average total monthly payroll costs incurred for January and February 2020.

> **Note:** Payroll costs are all payments for: (1) employee wages, salary and commission (for those who make less than $100k) and cash tips; (2) vacation, parental, family, medical or sick leave (except for any paid leave under the Families First Coronavirus Response Act); (3) allowance for dismissal or separation; (4) health care benefits including insurance premiums; (5) retirement benefits; and (6) state or local taxes assessed on the employee's compensation (not payroll taxes, railroad retirement taxes and income taxes).

#3: It offers loan forgiveness:

Loans can be converted into grants: A borrower can have the entire loan amount forgiven. The SBA will look at your business expenses (payroll, cash tips, utilities, rent and interest on mortgage) for the 8-week period after loan origination, add up all of those expenses and start with the assumption that for every dollar of those expenditures you'll get a dollar of your loan forgiven. Due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll.

#4: But, the amount forgiven *could* be reduced if you do these things:

The amount of loan forgiveness is reduced if you:

- Reduce the number of employees during that 8-week period, or
- Cut wages for employees (who already make less than $100K) by more than 25% during that same period.

Exception if you bring back laid-off employees: If borrowers laid off employees beginning on February 15, 2020 and uses the loan proceeds to bring those employees back and keeps them on payroll until at least June 30, 2020, the borrower's loan forgiveness amount will not be reduced.

Example: If an employer had 20 employees on February 15th and has only 3 when it applies for the PPP loan, the borrower's loan amount request can be based on having all 20 employees and as long as the borrower uses the loan proceeds to bring back those 17 employees and they are still with the borrower on June 30th, the borrower's entire loan amount will be forgiven.

Considerations between EIDL and PPP:

Funds Usage	Refinancing	Immediate Advance
You can't use the funds under the EIDL and the PPP loan for the same purpose/expenses.	If you have an EIDL now, you can look at refinancing your EIDL to the PPP loan.	Under PPP, if you have applied for an EIDL you may request an immediate advance of up to $10,000 (within 3 days of request) on the EIDL application. This $10,000, if used for payroll and other business expenses, does not have to be repaid, even if you are denied the EIDL.

Certain tax credits under the CARES Act are <u>not</u> available to PPP loan borrowers:

Employee Retention Tax Credit: The CARES Act creates a refundable tax credit for businesses (regardless of size) that retain their employees during the COVID-19 crisis. This tax credit is available for employers if they have fully or partially suspended their operations because of a government shutdown, or they experience a 50% reduction in quarterly receipts as a result of the COVID-19 crisis.

- For businesses with more than 100 employees, employers may claim a credit for wages of those employees who are retained but not currently working (furloughed or working reduced hours) because of the crisis.

You Can Do This!

This is an extraordinary time for everyone — including employers. If you're navigating downsizing operations and unemployment, remember that you're not alone. Organizations around the world are facing the same challenges, and we here at ProService Hawaii are here to help.

If you approach this challenge with thoughtfulness, compassion, and an openness to a new way of doing things, you can rise to the challenge and build resilience in your business for years to come.

About ProService Hawaii

ProService Hawaii is the state's leader in HR management. We give local employers access to benefits, payroll, HR and compliance support that make it easier to hire, manage and grow their teams.

ProService drives local business forward by taking care of 2,200 employers and 35,000 employees statewide. We combine the power of passionate local experts with innovative HR products and a simple online platform that is transforming the workplace in Hawaii.

- For businesses with less than 100 employees, employers may claim a credit for wages paid to all of their employees, up to $10,000 a person.

Payroll tax delay: The CARES Act allows employers to delay paying the employer-portion of payroll taxes through the end of 2020. The deferred amount is due in two installments—half is due before December 31, 2020 and the other half is due before December 31, 2022.

How to apply for a PPP loan:

We encourage you to apply as quickly as you can because there is a funding cap. Here's how:

1. First, familiarize yourself with PPP: Read the PPP Overview and Borrower Information Fact Sheet to see if you might qualify.
2. Start working on the application: You can download the application here. These loans will be in very high demand. It is critical that you apply as soon as the application process opens.
3. Submit your application: You can apply through any existing SBA lender or FDIC institution. Lenders may begin processing loan applications as soon as April 3, 2020.

If you're a ProService client, we may be able to help you get some of the information required on the PPP application (see image below). We're also moving as fast as we can to create an expedited loan approval process with major local banks.

Average Monthly Payroll:	$	X 2.5 equals Loan Amount:	$	Number of Jobs:	
Purpose of the loan (select more than one):	☐Payroll ☐Rent / Mortgage Interest ☐Utilities ☐Other (explain):				

A Note for ProService Partners

More programs are being created and defined to help small businesses impacted by COVID-19. Please contact your HR consultant for additional guidance to help you make the best decisions for your business and employees.