

Disaster COVID-19 Business Lending **601** **MAY 5, 2020**

With the passage into law of the CARES Act business owners have some options for financial assistance available to apply to now, and others that will be available shortly.

There can be no duplication of use of funds among all of these programs. Keeping very detailed records of your actions (as noted below) is paramount. As these programs are defined and delivered, we will have an understanding of how the programs interrelate (work together in concert and impact each other). **At this point, we do not have complete information on that.**

Please note that changes from Disaster Lending 501 are highlighted in yellow. We also suggest re-reading the entire document each time.

Current statement (5/4/20 @ 8:05 am) from the SBA on when the EIDL Portal will reopen:

- The SBA will begin accepting new Economic Injury Disaster Loan (EIDL) and EIDL Advance (EIDLEA) applications on a limited basis. At this time, **only agricultural business applications will be accepted due to limitations in funding availability and the unprecedented submission of applications already received.**
- Agricultural businesses includes those businesses engaged in the production of food and fiber, ranching, and raising of livestock, aquaculture, and all other farming and agricultural related industries (as defined by section 18(b) of the Small Business Act (15 U.S.C. 647(b)).
- In addition, SBA has resumed processing EIDL applications that were submitted before the portal stopped accepting new applications on April 15 and will be processed on a first-come, first-served basis.

AGRICULTURAL BUSINESSES (as described above) Apply for directly via the SBA portal:

<https://www.sba.gov/page/disaster-loan-applications#section-header-0>

(Note there are now many scammers on line so **only** use this site)

ALERT:

Urgent alert for our clients and contacts: If you are contacted by phone, fax, email or mail asking for additional financials to support your EIDL application, that person **MUST** have your application/confirmation number as evidence that they are from the SBA. Unfortunately, we are learning of entities and individuals posing as SBA affiliates and we want you to please be mindful. Learn more at:

<https://www.consumer.ftc.gov/blog/2020/04/new-funding-coronavirus-sba-loans-attracts-scammers>

1) Economic Injury:

The SBA INJURY Response has two components:

- i) **The Economic Injury Disaster Loan (EIDL) available through December 31, 2020;** this is a low interest, long-term loan that has a detailed list of requirements.
 - (1) It is a working capital loan that covers the gap between expenses and revenues for the period from 1/31/20 to 12/31/20 (whether that be a complete or partial reduction of revenues from the same period last year). It does **not** cover lost sales
 - (2) It will take into consideration other loans that you have secured in relationship to COVID-19. **So all loan/financing options should be considered in concert.**

- (a) If the EIDL loan is used for payroll, then it must be refinanced by the PPP (if the EIDL payroll period is the same as the PPP payroll period).
- (3) The application process has been streamlined. To file the initial application, you need only the following:
 - (a) Your basic business info (name, address, phone, EIN, opening date of the business and opening date of the current ownership {these can be the same date})
 - (b) Your personal info (name, address, DOB, SS#, place of birth)
 - (c) The only financial info at this point (**more will be required as you go through the process**):
 - (i) A calculation of Gross Revenues for period 2/1/19 – 1/31/20
 - (ii) A calculation of COGS (Cost of Goods Sold) for the same period
 - (iii) If you are a non-profit you will also need Operating Costs for the same period.
 - (iv) And if applicable, dollar amount of rents lost as a result of the disaster.
 - (v) There is also a question regarding any compensation you have received for mitigating the economic injury of COVID-19 on your business. They ask for the dollar amount and a description.
 - (vi) Note: there is a box at the top of the agent/owner page that asks if you are owned by an entity. If this box is not checked you cannot proceed past this page. Unless you are owned by another company/business then you check no.
 - (vii) You will also certify to some basic questions about your business and personal situation and that you have represented the information truthfully.
- (4) Once you have completed the application you will have a chance to review.
- (5) Once you hit submit you will be given a confirmation page with an application number. Print this page and screen shot it. Do not lose this number.
 - (a) And begin a file of all the material regarding this process, including any information you provided and the confirmation numbers you received from the SBA (put the confirmation number on the inside of the folder).
- (6) **PLEASE NOTE:**
 - (a) **This is not the last step before receiving funds. There will be a future point where you will be contacted to provide more detailed financial and supporting information. We have now been told that once the EIDLEA \$ appear in your bank account, you should, within 7-10 days receive an email from the SBA that includes your application number and requesting the list of additional information needed to continue the EIDL loan process.**
 - (b) **SBA may make an initial loan disbursement of an amount less than the approved loan amount due to current appropriations to the program.**
- (7) We still encourage you to have the list at the bottom of this document in order. These documents encompass the numbers that you should know about your business anyway so that you can make the best decisions about going forward when the pandemic has passed.
- (8) If you are approved for the EIDL, we recommend that you evaluate the impact of this new debt repayment on the cash flow of your business before moving forward to accept the money. VtSBDC advisors can provide assistance on how to evaluate.

- ii) **NOTE NAME CHANGE: The Economic Injury Disaster Loan Emergency Advance (EIDLEA) {FORMERLY the Emergency Economic Injury Grant (EEIG)}** is the component added on 3/30/20 that allows a business to request an advance up to \$10,000.
- (a) SBA has provided us with the information that the EIDLEA is figured on the calculation of \$1,000 per employee up to 10 employees.
 - (b) To be considered for an advance “up to \$10,000” a business needs to complete the streamlined EIDL application and (toward the end of that application) should check the box “to be considered” for this advance. **You must check this box.**
 - (c) At this point you will be asked for your BANKING Info:
 - (i) Bank Name
 - (ii) Account Number
 - (iii) Routing Number
 - (d) If you have already completed an EIDL application before 3/30 you will have to RE-APPLY for the advance option. This is regardless of whether you have received a denial.
 - (i) You should have received notice of this.
 - (ii) You need to have all of the information above prepared.
 - (e) According to SBA, the advance does not need to be paid back under any circumstances. If you proceed with the loan the advance will be deducted from the total amount available to you. And if you decide not to take the loan you may keep the advance.
 - (f) Please note: As a sole proprietor or LLC owner(s) that take an owners draw, you are allowed to count yourself as an employee for this streamlined application.
 - (g) The EIDLEA will appear in your bank account with the following description: SBA/Treasury. You will receive no notification that it is coming.
 - (i) And do **NOT re-apply** if you simply think too much time has passed. The **ONLY** reason to re-apply is if you applied before 3/30 as noted above, or if you have NOT RECEIVED an application #.
 - (ii) You can call the Hotline if you are concerned about the EIDLEA: 800-659-2955.

Available to apply for now through your local approved SBA lender:

- 2) **The Paycheck Protection Program (PPP) available through June 30, 2020;** which re-opened on 4/27 @ 10:30 am with additional funding of \$310 Billion and loans that were in the pipeline when the fund shut down will be funded first. The PPP is a **loan** specifically designed to cover payroll and payroll expenses for employers who maintained their workforce during the COVID-19 emergency or can bring them back immediately. This loan is only available thru SBA approved lenders.
- a) **Use this website to locate an SBA lender in your area.** Note that some banks are choosing to work with only their existing customers.
<https://www.sba.gov/paycheckprotection/find>
 - b) The SBA released its PPP Compliance Requirements on 4.21. Please read these before you consider applying for the PPP:
<https://content.govdelivery.com/accounts/USSBA/bulletins/28795f8>

- c) The Treasury Department released on 4.24.20 a document entitled PPP: How to Calculate Maximum Loan Amounts – By Business Type. We have linked here. This is a very important document for you to read:
<https://home.treasury.gov/system/files/136/How-to-Calculate-Loan-Amounts.pdf>
- d) NOTE there has been a change in the time frame used by a seasonal business to calculate the PPP loan amount. This information was released in the Interim Final Report release by the Department of the Treasury on 4/29/20.
- i) The report reads: "...a seasonal employer may determine its maximum loan amount for purposes of the PPP by reference to the employer's average total monthly payments for payroll "the 12-week period beginning February 15, 2019, or at the election of the eligible [borrower], March 1, 2019, and ending June 30, 2019."
- (1) The 12-week period is used only for determining the loan amount. **Please note that at this point we have not been advised that this changes the 8 week period in which the funds need to be used.**
- <https://home.treasury.gov/system/files/136/Interim-Final-Rule-Additional-Criterion-for-Seasonal-Employers.pdf>
- e) Borrowers whose previously submitted loan applications have not yet been processed may revise their applications based on clarifications reflected in the FAQs.
- (1) Check with your bank to see if they are allowing changes to applications that are in the queue.
- f) The best way to proceed on the PPP application process is to contact your bank and get the SBA Application and the additional list of requirements. Requirements vary slightly bank to bank, but items on the list below are consistent across the banks who have shared their requirements with us to date (but note this is a partial list, so talk with your bank and prepare accordingly):
- i) Certificate of Good Standing for your business.
- ii) Articles of Incorporation (and some banks are also requesting Operating Agreements and Bylaws.
- iii) The Drivers Licenses or Passports of all owners of 20% or more of the business.
- iv) All tax documentation on Employee Costs for 2019. See your bank for the exact documents they need. Note: this is for paid employees and 1099 personnel only and not independent contractors (who will be allowed to apply themselves).
- v) Sole Proprietors and LLC Owners will need to provide proof of compensation. Again see each bank for how and what they require for documentation.
- vi) Verification of number of employees on 2/15/20.
- (1) And verification that these employees live in the US.
- vii) Most banks are providing a link to the full set of instructions from the Treasury Department if you would like to see the fine print. Or go here:
<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>
- g) The loan terms are:
- i) 24 months at 1%.
- ii) Loan proceeds covers payroll expenses for 8 weeks for employees maintained at the level of employment pre-COVID or returned to work immediately after the loan is made.
- (1) This includes payroll, state and local taxes, and benefits. But again, make sure you are giving the bank all the payroll verification they require and they will tell you the amount they can use as the basis for the calculation.
- (2) The loan also covers mortgage interest (not principal), rent and utilities for the 8 weeks of the loan.

- h) Loan forgiveness is part of the language of this program. Please note that the process is **NOT** automatic. Once you have taken the loan and paid your employees and the expenses allowed, then you request forgiveness from the bank.
- i) We have not seen documentation on the forgiveness application process nor the criteria for forgiveness. The Banks have not received this either. As soon as they are released from the Treasury Department, we will update this document immediately. But you should also stay in touch with your lender.
- ii) We do know that 100% pristine and accurate reporting for the 8 weeks of how you spent the loan money will be a large part of that process.
- (1) According to the US Department of the Treasury the 8 weeks that will be considered for forgiveness **begins on the date** the lender makes the first disbursement of the PPP loan to the borrower (and the lender must make the first disbursement of the loan no later than 10 calendar days from the date of loan approval).
- (2) For clarification on the question about bringing employees back and its impact on forgiveness here is Question 20 from the FAQ from the Treasury Department:
Question 20: The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week period; when does that eight-week period begin?
Answer: The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.
Here is the link to the FAQ on the PPP from the Treasury (this link is to the most recent version dated 4.26.20):
<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>
- iii) There is a 6-month automatic deferral of payments for the first six months of the loan that is included within the 24 month term.
- iv) For those who receive an EIDLEA (advance) **after** a PPP, the amount of the EIDLEA will be subtracted from the amount forgiven.
- v) For those who receive an EIDLEA (advance) **prior** to applying for a PPP, the amount of the EIDLEA will be subtracted from the loan amount (since the PPP is potentially a grant, and you cannot have two grants).
- i) There are two very frequently asked questions regarding this program and employees:
- i) The first is about retaining the employees who are brought back immediately following the disbursement of the loan: If my business at the end of the 8 weeks is unable to (because of reduced revenue streams) keep all the employees on payroll can I lay them off and return them to unemployment. VT DOL provided the following answer: Yes, they can go back on UI...as long as they haven't exhausted overall benefits and the claimant can re-open his/her claim.
- ii) And the second is what happens if my business receives the PPP and an employee does not want to return to work for reasons not related to COVID-19 (having or caring for someone with the virus). **The VT DOL has now provided very specific instructions on handling this situation:**
<https://labor.vermont.gov/unemployment-insurance/refusal-return-work-covid-19>
- j) Our current advice on the PPP is to **speak with your banks**. Determine the amount that you could be eligible for and then compute the dollar amount of the payments you will be required to make on the debt. Assess if you could afford that debt if it were not forgiven. To us, at this point, we feel this is the most responsible calculation to make.

- i) This calculation should include both the term of the loan repayment (which we now know is 18 months) plus some determination of where you think your business will be in terms of revenue as you open post-COVID. We know the PPP as a recovery vehicle will vary industry to industry.
- k) Once approved, and before accepting the funds, VtSBDC advisors can provide assistance on how to evaluate whether or not to accept the money.

Also the Pandemic Unemployment Assistance (PUA) is now open for small business owners (including self-employed contractors) who are not eligible for unemployment thru the State of VT unemployment system. For information, eligibility requirements and instructions:

<https://labor.vermont.gov/PUA>

Also related to your payroll considerations, two new refundable Payroll tax credits have been announced that reimburse small businesses dollar for dollar for the cost of providing COVID-19 related leave:

- 1) Deferral of Employer-side FICA Payroll Taxes - Can defer the employer portion of FICA 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.
- 2) Retention Tax Credit - Adds a tax credit for employers to encourage businesses to keep workers on payroll during the crisis. The IRS now has a one page explanation (link below). Please see your accountant to discuss if this is applicable to your business.
<https://www.irs.gov/newsroom/irs-employee-retention-credit-available-for-many-businesses-financially-impacted-by-covid-19>

We expect more details from VT banks and the SBA on these loans:

3) **Debt Relief Programs**

This is a group of SBA loan vehicles that will be accessed through SBA approved lenders in Vermont. These will work in concert with the EIDL and any funds lent through these programs will be considered as mitigation of the final amount lent via the EIDL. These include:

- a) **The Small Business Debt Relief Program** covers the SBA 7a, 504 and Microloan Program. These loans can be used for short and long-term working capital. We have the following additional information on these programs:
 - i) The SBA will automatically pay the principal, interest, and fees of current 7(a), 504, and microloans for a period of six months.
 - ii) The SBA will also automatically pay the principal, interest, and fees of new 7(a), 504, and microloans issued prior to September 27, 2020.
 - iii) For current SBA Serviced Disaster (Home and Business) Loans: If your disaster loan was in “regular servicing” status on March 1, 2020, the SBA is providing automatic deferments through December 31, 2020. Note these refer to other EIDL programs that have been accessible post previous disasters (Tropical Storm Irene being one).
- b) **The SBA Express Bridge Loan (EBL) Pilot Program** allows small businesses that currently have a relationship with an SBA Express Lender to access up to \$25,000. These loans can help small businesses overcome the temporary loss of revenue they are

experiencing and can be a term loan or used to bridge the gap while applying and waiting for a direct SBA Economic Injury Disaster loan.

- i) Given the high volume of PPP applications that banks are processing we have not been made aware of any banks that are processing this loan at the moment. But you can certainly request information from your lender.
- ii) A couple of things to note about this loan:
 - (1) You must be able to prove that you cannot borrow this money elsewhere.
 - (2) It is a fundamental of the EBL program that you must have an existing relationship with the bank in order to access this loan.
 - (3) And if you do get an EIDL the proceeds must be used to pay this back in full or part.

Some local lending is now coming on line and more will be coming in the next couple of weeks as RDC's and Towns work to re-orient their current lending programs to address the disaster. These will be smaller amounts that should be seen primarily as bridge loans while applications for the above are in process. And any loan/grant you receive for COVID-19 will, if you proceed with the full EIDL application, be subtracted (mitigated) from the final amount.

Here is a link to the RDC's if you would like to contact them regarding their loan options:

<https://accd.vermont.gov/economic-development/resources/rdc>

As part of your preparation to apply for any loan/financing option, you should make sure you take two steps:

- 1.) You should first determine that you can afford the debt. We have provided a self-guided cash flow (it is the third button down on this page:**

<https://www.vtsbdc.org/coronavirus/>

- 2). Make sure the following is in order and all documents are ready to be uploaded electronically:**

Please note: Some or all of these documents may be needed in various applications. They will help you work with an advisor in assessing your options from the available loan/financing programs and determining which is right for you and your business in both the short and the long term.

1. A list (diary or narrative) of actions that you have taken in response to COVID-19, and direct impact you have seen. For example: 3/17/20 "laid off 2 employees" {names, # of hours typically worked and pay rate} and directed them to unemployment. Return to work date given with the date). This list will help identify economic impact.
2. Have the following financial records up to date:
 - a. Profit and Loss
 - b. Balance Statement
 - c. Sales records for 2019 and 2020 to date (this should come from QuickBooks or your POS or whatever system you use to capture daily income). Showing the actual impact on revenues is the basis of economic impact lending.
 - d. Three years of completed tax returns (personal and business). If 2019 is not complete, then a 2019 Profit & Loss Statement.

- e. Up to date Accounts Payable.
- f. Up to date Accounts Receivable.
- g. An up to date list of your collateral (including your personal real estate) with item description and current replacement value.

A list of monthly expenses/revenues projected for the rest of the calendar year (see above self-guided cash flow). These can be estimates and can have multiple scenarios depending on whether you are staying open at full capacity/reducing open hours/closing. This should be constructed based on your Profit and Loss for the same months last year: February – December.

Business assistance will continue to be provided by and available from VtSBDC (vtsbdc.org) our Regional Advisor is Debra Boudrieau, dboudrieau@vtsbdc.org or SRDC – Bob Flint- 802-885-3061 – bobf@springfielddevelopment.org