Coronavirus Aid Relief and Economic Security (CARES) Act - **Paycheck Protection Program**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act includes a important provision aimed at keeping workers employed and small businesses afloat. The "Paycheck Protection Program" expands on the Small Business Administration's existing 7(a) program. But, it is different in two key ways:

- The loans are made by private, local banks and CDFIs, not the SBA – ensuring speed
- The loans, if used on payroll and other operating expenses, are forgivable

Please note, the Paycheck Protection Program is different from the SBA Economic Injury Disaster Loan program, which is administered directly through the Small Business Administration.

Who is eligible for the Paycheck Protection Program?
Businesses, self-employed individuals, independent contractors, and 501(c)(3)s that were in operation on February 15, and were paying salaries and payroll taxes for their employees are eligible, as long as they have less than 500 employees (number may be higher for select industries where SBA definition of "small" is higher).

What is the maximum loan amount for the Paycheck Protection Program?
For employers, the loan amount is calculated using the average total monthly payroll costs (e.g. salaries, wages, commission, tips; vacation/sick/medical leave; group health care benefits, including insurance premiums; retirement benefits; payment of state or local tax on employee compensation) over the last 12 months. That monthly average is multiplied by 2.5 to determine the maximum loan amount. (*Basically, the maximum is 2 ½ months gross payroll.)* Any compensation above $100,000 paid to an employee is excluded.

For independent contractors, the self-employed, or sole proprietors, the payroll costs include wages, commission, income, and net earnings that do not exceed $100,000.

If an employer was not in business in 2019, they are still eligible, but use payroll costs for January and February 2020.

The loan has a 1.0% interest rate and two-year term. The amount is capped at $10 million per business.

What expenses can I pay for with the loan?
Eligible expenses are payroll (incl. paid sick, medical/family leave, and group health care benefits); salaries/commissions; mortgage payments; rent; utilities; and any other debt obligations incurred before the loan was taken out.

What portion of the loan is forgivable?
Forgiveness of the loan is allowed for the following over an 8-week period: payroll and benefit costs, rent, utilities, and interest on existing debt. Not more than 25% of the loan forgiveness may be attributed to non-payroll. Salaries above $100,000 above are not eligible for forgiveness.

Could my loan forgiveness be affected by the number of employees I lay off or rehire?
Yes, loan forgiveness is affected if you have fewer employees or a reduction of greater than 25% in wages paid to employees, versus before the loan. That is, if you have already laid-off workers, then the forgiveness will be proportionally reduced. However, workers that are rehired by June 30, 2020 can remediate this penalty. The formula to calculate the reduction is:

$$\frac{\text{Forgiveness Amount x Avg. Number of Full-Time Employees per Month for 8 weeks after Loan Origination}}{\text{Avg. Full-Time Employees per Month from February 15,2019 - June 30,2019}}$$

For example: Company A had a monthly average of 20 employees in 2019 and monthly payroll costs averaging $100,000. The company thus qualifies for a $250,000 loan ($100,000 x 2.5). In the 8 weeks following its loan, Company A has has averaged only 12 monthly employees, and spent a total of $150,000 on payroll, rent and utilities. If they had averaged 20 employees, Company A would be forgiven the full $150,000 spent. But since they averaged 12 (60%), they will only be forgiven $90,000.

$$\frac{\text{Max. Forgiveness Amount (\$150,000) x 12 employees}}{20} = \$90,000$$

Unforgiven Loan Amount: $250,000 - $90,000 = $160,000 (still owed)

If Company A rehires its all of employees and its monthly average number of employees is back to 20 employees by June 30, the amount that's forgivable would not be reduced.

$$\frac{\text{Max. Forgiveness Amount (\$150,000) x 20 employees}}{20} = \$150,000$$

Unforgiven Loan Amount: $250,000 - $150,000 = $100,000 (still owed)

Note: The SBA is still determining how wage reduction will impact forgiveness.

Is a loan applicant required to provide collateral?
Per the SBA, no collateral is required, nor is a personal guarantee. Further, the borrower will not have to prove that they were not able to obtain credit elsewhere. However, banks may add their own credit and underwriting criteria.

What information do I need to get started and find a private lender for my loan?
Beginning April 3, most banks and credit unions will be able to process these loans. Applicants will be asked to make a good faith certification that:

- The loan will be used to retain workers, or make mortgage, lease and utility payments
- A duplicate loan is not being used for the same purpose
- The uncertain economic conditions make the loan necessary

Independent contractors, the self-employed, and sole proprietors will also be asked to provide documentation such as payroll tax filings.

For more information or questions, see gnoinc.org/coronavirus or email VP Policy Ileana Ledet at iledet@gnoinc.org.