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ADMITTED IN NY, NJ & FL

April 1, 2020

**Memorandum to Clients and Other Small Businesses**

Re: COVID-19 Coronavirus Disaster Relief Loan Options Summary For Small Businesses

We are in tumultuous and uncertain times now, and the economic impact of COVID-19 on many small businesses, non-profits, and sole proprietorships alike has been overwhelming and devastating. As you may have seen in the news recently, the federal government has made available two important options for expedited relief for any businesses in need of assistance to continue operating. These options are the Economic Injury Disaster Loan (“EIDL”) by the Small Business Administration (“SBA”), which provides loans of up to \$2 million (with the option to request an immediate grant of up to \$10,000.00) and the Paycheck Protection Program (“PPP”) under The Coronavirus Aid, Relief, and Economic Security Act (the “Cares Act”), which sets aside \$350 billion for small businesses and loans of up to \$10 million. The following is an abridged summary of the highlights of each loan program (which can be subject to change as more information is released), so you can figure out which one is better suited for your needs. You may also be eligible to apply for both. To better understand what loan option is right for you and your business, or if you need answers to other questions you might have, please contact me at: [zhelprin@helprinlegal.com](mailto:zhelprin@helprinlegal.com).

**Economic Injury Disaster Loan Program and Emergency Economic Injury Grant**

The EIDL program (which was modified by the newly signed Cares Act), provides low interest loans of up to \$2 million, with principal and interest deferment available for up to four (4) years, issued directly by the SBA to small businesses to help with payments for expenses that could have been met but for the current pandemic, including payroll and other operating expenses.

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Why is an EIDL Better Than a Standard Loan?

- Up to \$2 million
- Low interest rate of 3.75% (there is talk of this being lowered even further as well)
- Loan is granted by the SBA and not a bank
- Expedited loan processing time
- No personal guaranty required on loans of less than \$200,000.00
- Term of up to thirty (30) years
- No prepayment penalties
- Up to a \$10,000.00 emergency grant available within three (3) days of your EIDL application and does not need to be repaid (but needs to be specifically requested on the application)

Who is Eligible For an EIDL?

The most commonly eligible recipients are:

- Small businesses with not more than 500 employees (including sole proprietorships, with or without employees)
- Independent contractors
- Certain private non-profits

If you have been in operation since January 31, 2020, you might be eligible for an emergency one-time grant of up to Ten Thousand Dollars (\$10,000.00) for immediate relief within three days of your EIDL application. **You must specifically request this grant by checking yes on the box on the application.** This grant does NOT need to be repaid under ANY circumstance, even if you are denied the EIDL, but it must be used for documented business expenses. It is also important to note that if you do apply for both the EIDL and the PPP, the up to \$10,000.00 grant will be subtracted from any loan forgiveness.

To apply for an EIDL online, go to <https://covid19relief.sba.gov/> or <https://disasterloan.sba.gov/ela/>.

**Paycheck Protection Program Loan Program**



The PPP Loan Program, created under the newly signed Cares Act, provides low interest loans of up to \$10 million, with principal and interest deferment available for up to six (6) months or twelve (12) months, along with no loan fees and, most importantly, possible loan forgiveness.

#### Highlights of the PPP Loan

- Loans of up to \$10 million (loans can be for up to two months of your average monthly payroll costs from the last year plus an additional 25% of that amount. If you are a seasonal or new business, you will use different applicable time periods for your calculation. Payroll costs will be capped at \$100,000 annualized for each employee)
- Term of up to 10 years
- Low interest rate (maximum of 4%)
- No personal guarantees or company collateral
- Complete deferment of interest and principal up to six (6) months or twelve (12) months
- Zero loan fees
- Zero prepayment penalty
- Potential loan forgiveness
- Refundable tax credits
- Certain payroll taxes are deferred
- Employee retention tax credit
- Processed within seven (7) days

#### Who is Eligible for a PPP Loan?

If you were in business on February 15, 2020, the most common businesses eligible for PPP are:

- Small business with fewer than five hundred (500) employees
- Sole proprietors
- Independent contractors
- Certain non-profits
- Eligible self-employed individuals

#### What Can a PPP Loan Be Used for?

- Payroll costs, compensation, tips, and commissions (capped at \$100,000 on an annualized basis for each employee. For a sole proprietor or independent contractor: wages,



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commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee)

- Most employee benefit payments including but not limited to health care, paid time off, severance, and retirement benefits
- Mortgage interest payments
- Rent for agreements signed prior to February 15, 2020
- Utilities
- Interest on any other debt obligations accrued prior to February 15, 2020
- Any allowable use of a loan made pursuant to Section 7(a) of the Small Business Act, which includes working capital and capital expenditures

#### PPP Loan Forgiveness

You might be eligible for loan forgiveness if you use the money in the eight weeks following the loan origination date for certain documented business costs (mentioned above). Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs. If you are not eligible for loan forgiveness, you will have a maximum of a 10-year term and a four (4) percent interest rate on the loan. It is also important to note that if you do apply for both the EIDL and the PPP, the up to \$10,000.00 grant will be subtracted from any loan forgiveness.

#### How to Apply for a PPP Loan

All current SBA 7(a) lenders are eligible lenders for a PPP Loan, so check in with your bank and apply through them (applications start April 3<sup>rd</sup>. There is a separate application start date of April 10<sup>th</sup> for Independent Contractors and Sole Proprietors). Be prepared to provide your tax returns, payroll records, lease or mortgage records, and other business expense documents when applying. The Department of Treasury will also authorize new lenders in the weeks ahead, and you can apply through June 30, 2020 (though you should apply as quickly as you can because there is a funding cap on the PPP and lenders need time to process your loan).

To better understand what loan option is right for you and your business, or if you need answers to other questions you might have, please contact me at: [zhelprin@helprinlegal.com](mailto:zhelprin@helprinlegal.com).