



## **SBA Updates Regarding Paycheck Protection Program and Economic Injury Disaster Loans**

4/3/2020

**IMPORTANT NOTE:** *You are receiving this as a registered Diamond Financial Newsletter recipient. Please note that this and any further updates regarding SBA loan programs and COVID-19 will be temporary and informational ONLY.*

We at Diamond Financial are monitoring current SBA activities involving the Paycheck Protection Program (PPP) resulting from the passage of the CARES Act and Economic Injury Disaster Loans (EIDL) from the SBA Office of Disaster Assistance and will summarize important facts that you need to know about these two programs. We will continue to provide updates on this and all information regarding SBA loans as new facts become available.

*Paycheck Protection Program* – On March 27th, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law which allocated \$349 billion to the SBA for a new loan program to assist small businesses directly impacted by COVID-19. This new program, the Paycheck Protection Program (PPP), gives capital to businesses that can be used for payroll, mortgage payments (interest only), rent, utility payments, interest on other debt obligations incurred before 2/15/2020, and costs related to continuing health care benefits during periods of paid sick, medical, or family leave, as well as insurance premiums. PPP also allows for full forgiveness of qualifying loans and they are 100% guaranteed by the SBA. No collateral or personal guarantees are required for PPP loans, and there are no up-front or annual service fees. It is important to note that PPP loans will be distributed by existing 7(a) program participants and any federally insured lender (FDIC banks and NCUA credit unions), not the SBA, and are on a first-come, first-served basis. It is our understanding that lenders will take care of existing customers first before they handle new customers. We recommend contacting your lender that you have an existing relationship with as soon as possible to get more information and to get on their radar. In order to be eligible for PPP, a business must have fewer than 500 employees (or meet SBA size standards for certain industries), be principally located in the United States, in operation on 2/15/2020, and have an active payroll or have paid independent contractors. Sole proprietors, independent contractors, non-profits, Veterans Organizations, and Tribal businesses that meet SBA size requirements are also eligible. You are ineligible from the PPP if you have obtained a

guaranteed loan from the SBA that has defaulted within the last seven years or if any owner above 20% equity is incarcerated, on probation, subject to indictment, or has been convicted of a felony within the last five years. The maximum amount that you can borrow under a PPP loan is the lesser of \$10,000,000 or 2.5 times average monthly payroll. Excluded from the payroll cost total is any compensation of an employee not principally based in the United States, compensation of an employee in excess of \$100,000 annually, and any FICA, Railroad Retirement Act, and federal income taxes withheld. Independent contractors do not count as employees as they are eligible for PPP loans themselves. The interest rate on PPP loans are 1.00% with a maturity of two years. PPP loan payments are deferred for the first six months after origination, but interest is still accrued. In order to have this loan fully forgiven, principal and interest, 75% or more of loan proceeds must be used for payroll costs. Loan forgiveness is limited up to 25% for non-payroll costs (interest on mortgage, rent on leases, and utilities) as PPP is focused on keeping workers employed. If you misuse any PPP funds, the SBA will direct you to repay the amount misused and possibly be held liable for fraud. For more information about the Paycheck Protection Program, [click here for a fact sheet](#), or [click here for a overview](#). Both PDFs are from the United States Treasury.

*Economic Injury Disaster Loans* – The SBA will issue Economic Injury Disaster Loan (EIDL) declarations, also known as working capital loans, under its own authority, provided it has received a request from the state's governor. Unlike PPP, EIDL is facilitated directly by the SBA and not the banks. Funds for EIDL come directly from the Treasury and are have a no cost, no obligation application. EIDLs are available to small businesses that are directly affected by the disaster, businesses that offer services directly related to the business in the declaration, and other businesses that are indirectly related to the industry that are likely to be harmed by losses in their community. Eligible industries include, but are not limited to, hotels, recreational facilities, manufacturers, owners of rental property, restaurants, retailers, wholesalers, and more. Criteria for an EIDL approval include an acceptable credit history to the SBA, repayment abilities determined by the SBA, being physically located in a declared county, (P.O. boxes do not count) and suffer working capital losses due to the declared disaster. Working capital losses due to economic downturn or other reasons are not eligible. Loan terms for EIDL have a maximum amount of \$2,000,000, interest rate of 3.75%, (2.75% for non-profits), and a term of 30 years. Loan proceeds can be used to pay fixed debts, payroll, accounts payable, and other bills that could have been paid had the disaster not happened. EIDL proceeds are not intended to replace lost sales, profits, or used for expansion projects. EIDLs over \$25,000 require collateral, but the SBA will not decline a loan because of a lack of collateral. The SBA will take and require borrowers to pledge what is available.

PPP and EIDL serve two different purposes and are not the same. PPP is geared toward more short-term forgivable loans to help keep workers employed where EIDL is geared towards businesses materially hurt from COVID-19 that can receive long-term, non-forgivable, loans to help operations during this time.

Although today the world is in very uncertain times, we need you to know that Diamond Financial has your financing covered and remains committed to your success through these

trying weeks. We completely understand the concerns you might have and are here for support and to answer any questions at all regarding financing. Understanding that many of the same SBA proposals being considered for today's crisis were included in the American Recovery and Reinvestment Act of 2009, Diamond Financial is ready to act and assist as we have great knowledge and experience with these programs as our firm reaches 25 years in business.

No one knows what the next few weeks or months may hold, but what I can assure you is that we'll be here and will continue assisting small business to lead the country's growth in the coming years.

Diamond Financial Services [info@easysba.com](mailto:info@easysba.com)