

Applying for Small Business Loans Under the CARES Act

The economic stimulus bill, referred to as the “CARES Act”, provides approximately \$350 billion to guarantee loans to small businesses. The program will be administered by the Small Business Administration (SBA), but the loans will be made by banks, credit unions and other lenders. Below are some FAQs which describe the proposed SBA lending program that has been approved by Congress and signed into law by the president. Additional guidance will be provided by the SBA as this program is developed.

What is the program and how does the stimulus bill impact it?

The SBA’s flagship small business lending program is known as the “7(a) program”. The program is a partnership between private lenders, which issue the loans, and the SBA, which guarantees the loans. The CARES Act provides the authority for the SBA to make loans under a new facet of the 7(a) program: the Paycheck Protection Program (PPP).

Who is eligible for the loans?

Any business that operates one or more locations and does not have more than 500 employees (which includes individuals employed on a full-time, part-time or other basis) generally is eligible. Sole proprietors also are eligible to apply for loans. Another condition is that the borrowers must have been in business on February 15, 2020, and paid employee salaries and payroll taxes (or paid one or more independent contractors).

The CARES Act requires eligible borrowers to certify that: the loan is necessary due to the uncertainty of current economic conditions caused by the global COVID-19 pandemic; that the borrower will use the funds to retain workers and maintain payroll, lease, and utility payments; and the borrower is not receiving duplicative funds for the same uses from another SBA program.

What kind of credit profile do I need to borrow?

The main underwriting standards for eligibility will be proof that the business was operational on February 15, 2020 and had employees for whom it paid salaries and payroll taxes (or a paid independent contractor). Trade groups and lenders expect the SBA to release detailed guidelines in coming days on underwriting and application criteria.

How long will it take to get the money?

Lenders expect it could take up to two weeks.

How much money can I apply for?

The maximum PPP loan is equivalent to 250% of the employer’s average monthly payroll costs during the one-year before the loan is made or \$10 million, whichever is less. Payroll costs are defined broadly to include wages, salaries, retirement contributions, healthcare benefits, covered leave, and other expenses.

Will I be required to pay an origination fee?

No. The typical SBA borrower and lender fees will be waived.

What are the repayment terms?

The stimulus bill sets the maximum interest rate for PPP loans at 4% and allows borrowers to defer payments (including principal, interest and fees) for six months to a year. Loans can have a maximum term of up to ten years and there are no prepayment penalties.

For what can I use the loan proceeds?

The stimulus bill specifies allowable uses of the PPP loan to include payroll support, such as employee salaries, paid sick or medical leave, insurance premiums, and mortgage, rent, and utility payments. In addition, proceeds of loans may be used to make interest payments on other debt obligations that were incurred prior to February 15, 2020.

What steps can I take to best position my business to obtain a PPP loan?

Run, don't walk to your current bank or credit union. The CARES Act authorizes the SBA to guarantee up to \$349 billion, including loans under the 7(a) program. A lender will fund a PPP loan only if it first confirms the SBA will guarantee it. Assume that the SBA will confirm guarantees on a first-come, first-served basis. Once the outstanding SBA guarantees hit \$349 billion, a small business not already approved for a PPP loan will not be able to obtain funding unless Congress expands the program. At this time, it is not certain that Congress will expand the program.

A small business should contact its existing bank ASAP to confirm that the bank is planning to offer PPP loans. Some banks are planning to give priority to existing customers and will likely make PPP loans to a business that is not an existing customer only if that borrower's current bank is not participating in the PPP program. If your existing bank will not be participating in the PPP program, contact a bank in your area that is an SBA Preferred Lender.

A small business seeking to obtain a PPP loan should have the following documents ready:

- A schedule of employees, confirming that it does not have more than 500 employees.
- An analysis of average monthly "payroll costs" for the past 12 months, showing the amounts included and excluded from the definition of payroll costs. Use the 12-month period April 1, 2019 to March 31, 2020 as a starting point but be prepared to update the analysis to cover the 12-month period prior to the origination of the PPP loan. Payroll costs are defined broadly to include wages, salaries, retirement contributions, healthcare benefits, covered leave, and other expenses.
- A worksheet demonstrating that the requested PPP loan does not exceed the maximum loan limit for which the business is eligible. The maximum PPP loan is equivalent to 250% of the employer's average monthly payroll costs during the one-year period before the loan is made or \$10 million, whichever is less.
- A profit and loss statement (P&L) for 2019, but only if available. If a business does not have its 2019 P&L readily available, it should not delay contacting its bank until the P&L is prepared.

Where can I go for more information?

Loan information will be available from a variety of lenders and at SBA.gov.

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