

Getting Cash During the Virus Crisis: Loans, Forgivable Loans, and Grants

Available to Businesses, Independent Contractors,
Sole Proprietors, and the Self-Employed

The Payroll Protection Program
and the Economic Injury Disaster Loan Program
(and some other benefits for small businesses)

Key Takeaways

- Most now eligible for subsidized loans, forgivable loans, small grants
 - <500 employees, indep. contractors, sole props., self-employed, partnerships
 - Full-time, part-time, or “other status”
 - If hurt by crisis or its “uncertainties”
 - Often no collateral, no personal guarantee
- Forgivable PPP loan = 2½ months of pre-crisis “payroll” costs
- Other loans also have low-interest, very easy terms, cash quickly
- Apply today, strategically—regardless of headlines
 - Fast and easy to apply and get funded—until funds run out
- Banks and SBA likely to re-start applications on April 27th
- We provide concrete examples of how PPP loans can help

Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), and More

- Goal: To preserve employment and businesses
 - Current economic uncertainties make loan necessary for support of operations
- Small businesses, sole proprietors, self-employed, and contractors, etc.

- \$310B replenished PPP, after \$350B used up in two weeks
- Forgive loan repayment if use the PPP loan (mostly) for payroll costs
 - 1% interest, 2-year term, <\$10M
 - No personal guarantee, no collateral required

- \$50B more for Economic Injury Disaster Loans and grants (EIDLs)
- Crisis-related tax credits and the usual SBA loans
- Even unemployment checks for business owners, self-employed, etc.

Forgiveness of PPP Loans—Up to 100 Percent!

- Costs eligible for forgiveness: compensation, rent, utilities, mortgage interest
 - Compensation: wages & salaries, health and ret. benefits, paid leave, non-fed. payroll taxes
- Spend loan proceeds within 8 weeks of receiving cash
- Spend at least 75% of loan proceeds on compensation costs
- Achieve pre-crisis headcount by June 30
- Compensation costs at least 80% of pre-crisis amount
- Limited to the first \$100K of each employee's annual compensation cost
- Rules for partial forgiveness are not yet clear

Get Going to Get Cash

Easy to Apply

- Some complaints PPP is “complex”, “bewildering”, “confusing”, “frustrating”
- But, 2-page application in < 1 hour
 - Application in Appendix below
- Provide the few required documents
 - “Payroll” costs, payments to owner, 1099
 - 2019 Schedule C—even if not yet filed!
 - Maybe some invoices, bank statements
- Perhaps, separately apply for business account and/or loan to trigger paperwork (BSA, AML, ...)

Have a Strategy for Where To Apply

- Many lenders are swamped
- Some lenders require business accounts as of Feb. 15th (e.g., BofA, ...)
- Credit unions and smaller banks
 - \$30B reserved for PPP @ small banks + CUs*
 - \$30B reserved for PPP @ midsize banks + CUs*
 - Also, will be eligible for \$250B PPP loans
- But, completed applications not funded before might be first in line

*Small: Assets <\$10B

*Midsize: Assets \$10B-\$50B

PPP Loans May Be Forgiven, Mostly (or Entirely): 15 Full-Time Employees

Tuowonbee Enterprises:

Monthly Expenses (\$1000s)

• Payroll	90*	*: Forgivable
• Benefits	20*	
• Health Ins.	20*	
• Rent	20*	
• Utilities	5*	
• <u>Other</u>	<u>45</u>	
Total	200	

Paycheck Protection Program:

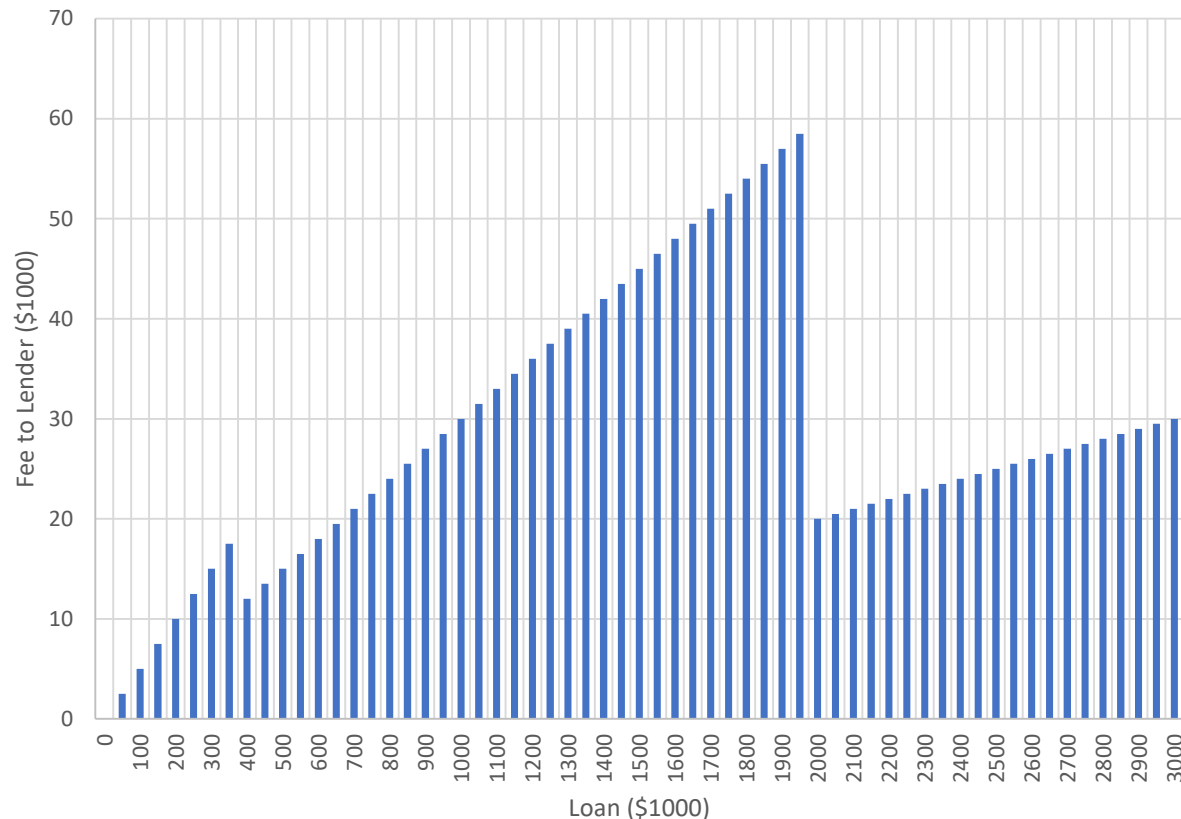
Loan Amount and Forgiven

- Maximum Loan Size
- $2.5 \times (90+20+20) = 325$
 - 2.5 x monthly compensation
- Amount of Loan Forgiven
- $2 \times (90+20+20+20+5) = 310$
 - 2 months of compensation+rent+utilities
 - Amount of loan forgiven is not taxable
- Net borrowing = $325-310 = 15$
 - Interest rate = 1.00%
 - 1st payment deferred 6 months
 - About \$1,000.00/month
 - Interest is tax-deductible

Lenders Submitted 2M PPP Loan Applications

(By April 16. Total fees paid by govt. to lenders: \$10B. No fees to borrowers.)

PPP Fees Paid per Loan to Lender (\$1000)



“One hand washes another”:
Don’t apply for PPP loan a little over \$351K.

← PPP Loan: \$325,000.
Fee to Lender: \$16,250.

PPP Loans May Be Forgiven, Mostly (or Entirely): 40 Full-Time Employees

BigSmallBiz:

Monthly Expenses (\$1000s)

• Payroll	250*	*: Forgivable
• Benefits	65*	
• Health Ins.	65*	
• Rent	60*	
• Utilities	15*	
• <u>Other</u>	<u>150</u>	
Total	605	

Paycheck Protection Program:

Loan Amount and Forgiven

- Maximum Loan Size
- $2.5 \times (250+65+65) = 950$
 - 2.5 x monthly compensation
- Amount of Loan Forgiven
- $2 \times (250+65+65+60+15) = 910$
 - 2 months of compensation+rent+utilities
 - Amount of loan forgiven is not taxable
- Net borrowing = $950-910 = 40$
 - Interest rate = 1.00%
 - 1st payment deferred 6 months
 - About \$1,700.00/month
 - Interest is tax-deductible

PPP Loans May Be Forgiven, Mostly (or Entirely): No Employees

1099 Contractors/Self Employed/Sole Proprietor:

2019 Tax Year Form 1040 (\$1000s)

- Schedule C (l.31) 90* *: Forgivable
 - 2019 Form 1040--even if not yet filed!

Paycheck Protection Program:

Loan Amount and Forgiven

- Maximum Loan Size
- $2.5 \times (90/12) = 18.75$
 - 2.5×2019 (or recent) monthly net profit
- Amount of Loan Forgiven
- $2 \times (90/12) = 15$
 - 2×2019 monthly net profit
 - Amount of loan forgiven is not taxable
- Net borrowing = $18.75 - 15 = 3.75$
 - Interest rate = 1.00%
 - 1st payment deferred 6 months
 - About \$170.00/month
 - Interest is tax-deductible

But, Wait! There's More!!

EIDL Is an SBA Loan—with a Grant

- Apply directly to SBA, not through a lender
 - Approved or not, within days, receive \$1K per (Jan. 31, 2020) employee (\leq \$10K)
 - EIDL grant reduces PPP forgiveness
- OK to do both PPP and Economic Injury Disaster Loan (EIDL)
- EIDL if COVID cut operations, or if profits $<1/2$ of same time in 2019
- EIDL loan \leq \$2 million at 3.75% for \leq 30-year term
 - Allows more uses of funds than PPP
 - No collateral required
- 10 minutes to complete forms (SBA); 1 month to get funds
- Payments deferred for first 6 months

And, More Yet!!

- Employee Retention Refundable Tax Credit
 - Credit up to ½ of each employee's wages with cap of \$5K credit for each employee
 - Based on employees, not for self-employed
 - Cannot get PPP loan if claiming this tax credit
 - Businesses eligible if they cut 2020 operations due to govt. restrictions on travel, business, etc.
- Newly eligible for much more in Unemployment Insurance (UI) benefits
 - Thru December, bus. owners, contractors, self-employed, just-employed, ...
 - For April - July, extra \$600/week added
- Usual SBA loan programs: 7(a), 504, microloans
 - SBA will pay 1st 6 months of principal, interest, and fees
 - On new loans made through these programs before Sept. 27th

Examples of Rescue Resources

- You can apply for PPP loans through banks, credit unions, and platforms, e.g., <https://www.lendio.com/covid-relief/sba-paycheck-protection-program-loans/>
- Some lenders that prioritize small businesses are listed at matchfinder.venturize.org
- Payroll calculators are available at <https://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/sba-paycheck-protection-program-resources-for-cpas.html>
- You can apply for the EIDL at <https://covid19relief.sba.gov/#/>

A Disclaimer

- In the interests of speed and clarity, we omit some program details. We think that our claims and calculations convey useful information.
- We are not providing advice for any particular borrower
- We are not endorsing any particular lender.

Appendix: The PPP Application (except for 2 pp. of instructions. Banks likely require some documents.)

**Paycheck Protection Program
Borrower Application Form**

OMB Control No. 3245-0127
Revision Date: 07/2020

Check One: <input type="checkbox"/> Sole proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> LLC <input type="checkbox"/> Independent contractor <input type="checkbox"/> Eligible self-employed individual <input type="checkbox"/> 501(c)(3) nonprofit <input type="checkbox"/> 501(c)(19) veterans organization <input type="checkbox"/> Tribal business (sec. 31(b)(2)(C) of Small Business Act) <input type="checkbox"/> Other	DBA or Tradename (if applicable) 	
Business Legal Name 		
Business Address 		
Business EIN (SSN, MBE) Business Phone 		
Primary Contact Email Address 		
Average Monthly Payroll: \$ _____	± 2.5 + EIDL, Net of Advances (if Applicable) \$ _____	Number of Employees: _____
Purpose of the loan (select those that apply): <input type="checkbox"/> Payroll <input type="checkbox"/> Loans / Mortgage Interest <input type="checkbox"/> Utilities <input type="checkbox"/> Other (explain): _____		

Applicant Ownership

List all owners of 20% or more of the equity of the Applicant. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, MBE)	Address

If questions (1) or (2) below are answered "Yes," the loan will not be approved.

Question	Yes	No
1. Is the Applicant or any owner of the Applicant presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the Applicant, any owner of the Applicant, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the Applicant or any owner of the Applicant an owner of any other business, or have occurred management with, any other business? If yes, list all such businesses and describe the relationship on a separate sheet identified as addendum A.	<input type="checkbox"/>	<input type="checkbox"/>
4. Has the Applicant received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.	<input type="checkbox"/>	<input type="checkbox"/>

If questions (5) or (6) are answered "Yes," the loan will not be approved.

Question	Yes	No
5. Is the Applicant (if an individual) or any individual owning 20% or more of the equity of the Applicant subject to an indictment, criminal information, arraignment, or other means by which Federal criminal charges are brought in any jurisdiction, or presently incarcerated, or on probation or parole? Initial here to confirm your response to question 5 → _____	<input type="checkbox"/>	<input type="checkbox"/>
6. Within the last 5 years, has the Applicant (if an individual) or any owner of the Applicant 1) been convicted; 2) pleaded guilty; 3) pleaded nolo contendere; 4) been placed on pretrial diversion; or 5) been placed on any form of parole or probation (including probation before judgment)? Initial here to confirm your response to question 6 → _____	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the United States the principal place of residence for all employees of the Applicant included in the Applicant's payroll information above?	<input type="checkbox"/>	<input type="checkbox"/>
8. Is the Applicant a franchise that is listed in the SBA's Franchise Directory?	<input type="checkbox"/>	<input type="checkbox"/>

**Paycheck Protection Program
Borrower Application Form**

OMB Control No. 3245-0127
Revision Date: 07/2020

By Signing Below, You Make the Following Representations, Authorizations, and Certifications:

CERTIFICATIONS AND AUTHORIZATIONS

I certify that:

- I have read the statements included in this form, including the Statements Required by Law and Executive Orders, and I understand them.
- The Applicant is eligible to receive a loan under the rules in effect at the time this application is submitted that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (the Paycheck Protection Program Rule).
- The Applicant (1) is an independent contractor, eligible self-employed individual, or sole proprietor or (2) employs no more than the greater of 500 or employees or, if applicable, the size standard in number of employees established by the SBA in 13 C.F.R. 121.201 for the Applicant's industry.
- I will comply, whenever applicable, with the civil rights and other limitations in this form.
- All SBA loan proceeds will be used only for business-related purposes as specified in the loan application and consistent with the Paycheck Protection Program Rule.
- To the extent feasible, I will purchase only American-made equipment and products.
- The Applicant is not engaged in any activity that is illegal under federal, state or local law.
- Any loan received by the Applicant under Section 7(b)(2) of the Small Business Act between January 31, 2020 and April 3, 2020 was for a purpose other than paying payroll costs and other allowable uses loans under the Paycheck Protection Program Rule.

For Applicants who are individuals: I authorize the SBA to request criminal record information about me from criminal justice agencies for the purpose of determining my eligibility for programs authorized by the Small Business Act, as amended.

CERTIFICATIONS

The authorized representative of the Applicant must certify in good faith to all of the below by initialing next to each one:

_____ The Applicant was in operation on February 15, 2020 and had employees for whom it paid salaries and payroll taxes or paid independent contractors, as reported on Form(s) 1099-MISC.

_____ Current economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.

_____ The funds will be used to retain workers and maintain payroll or make mortgage interest payments, lease payments, and utility payments, as specified under the Paycheck Protection Program Rule; I understand that if the funds are knowingly used for unauthorized purposes, the federal government may hold me legally liable, such as for charges of fraud.

_____ The Applicant will provide to the Lender documentation verifying the number of full-time equivalent employees on the Applicant's payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight-week period following this loan.

_____ I understand that loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities, and not more than 25% of the forgiven amount may be for the non-payroll costs.

_____ During the period beginning on February 15, 2020 and ending on December 31, 2020, the Applicant has not and will not receive another loan under the Paycheck Protection Program.

_____ I further certify that the information provided in this application and the information provided in all supporting documents and forms is true and accurate in all material respects. I understand that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, if submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000.

_____ I acknowledge that the lender will confirm the eligible loan amount using required documents submitted. I understand, acknowledge and agree that the Lender can share any tax information that I have provided with SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

Signature of Authorized Representative of Applicant Date

Print Name Title