



Village of Walton Hills
7595 Walton Road • Walton Hills, Ohio 44146
Don Kolograf, Mayor

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NEW CORONAVIRUS STIMULUS BILL SBA LOAN PROGRAM: WHAT BUSINESSES NEED TO KNOW

Congress has passed and President Trump has signed a historic \$2 trillion stimulus and health care package today. The bill includes a \$349 billion relief program for small businesses, available through the Small Business Administration's (SBA) existing §7(a) Paycheck Protection Program. Structured as forgivable loans, the program is designed to bridge employers through the shutdowns caused by the coronavirus.

The loans will be available during the designated emergency period, running from February 15, 2020 through June 30, 2020, and are separate from the SBA's Disaster Loans.

Here is a summary of the things businesses need to know about the program:

WHO QUALIFIES?

The program is open to employers, both for-profit businesses and non-profit organizations, with 500 employees or less. Some exceptions may apply under the SBA regulations for companies or non-profits with more than 500 employees.

In addition, businesses in the "accommodations and food services" sector under the applicable "NAICS" Code (the North American Industry Classification System), with more than one location and not more than 500 employees per location, are eligible. For example, a small retail or restaurant chain with 800 employees over 30 locations may also be eligible for relief.

Borrowers will need to have been in business as of February 15, 2020 to be eligible for a loan.

WHAT LOAN TERMS ARE OFFERED?

Maximum of \$10,000,000 is available per borrower, but the amount of the loan depends on the payroll of each borrower.

Specifically, the amount available is equal to two and a half months of payroll, including health care premiums, up to the maximum cap and up to \$100,000 in wages (loans used to cover salaries of over \$100,000 would not qualify for forgiveness, as detailed below).



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The amount of the loan is based on the average total payroll costs the company had the year before the loan is made.

Usual creditworthiness standards found in a typical §7(a) loan have been relaxed under the bill.

Similarly, unlike other SBA loans, personal guarantees or a pledge of collateral or assets are specifically waived.

Interest on the loans is capped at 4% and borrowers can defer payments (principal, interest and fees) for a period of not less than six months and not more than one year.

There are no SBA fees to apply for the loan and no prepayment penalty for any payment made on the loan.

However, a borrower will need to use the money for covered purposes within two months of receiving the loan in order to be eligible for loan forgiveness, as detailed below.

HOW CAN QUALIFIED BORROWERS APPLY?

Once the program is operational, borrowers should apply for the loans through their bank.

The Treasury Secretary has announced that all FDIC insured financial institutions will be able participate in the loan program, expanding the pool of eligible lenders from currently approved SBA lenders to virtually every bank in America.

WHAT PAPERWORK IS NEEDED TO APPLY?

The bill waives most of the SBA's usual initial paperwork requirements, with the goal of getting money to the employers affected by COVID-19 fast.

Borrowers will be required to make a good faith certification that: (i) the uncertainty of current economic conditions make the loan necessary for ongoing operations; (ii) the funds will be used to retain workers and maintain payroll or make mortgage interest, lease and utility payments; (iii) there is not a second loan application pending for the same purpose and duplicative of amounts applied for or received; and (iv) for the period of February 15, 2020 through December 31, 2020, the borrower has not already received funds under the program.

Paperwork will come at the end, when the borrower applies for debt forgiveness. At that point, the borrower will need to prove that they needed the loans when they were applied for and that the borrower used the funds as intended by the program.



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WHEN WILL BORROWERS RECEIVE FUNDS?

During a press conference on March 25, 2020, Treasury Secretary Steven Mnuchin indicated that the program should be up and running by the end of next week (April 3, 2020) and that borrowers could expect to receive funds the same day that applications are submitted.

DO YOU HAVE TO REPAY THE LOAN OR IS IT FORGIVABLE?

The principal amount of the loan is forgivable if the borrower, within an eight week period that begins on the date the loan is originated spends the loan money on: payroll, interest on mortgage debt, rent and/or utilities.

However, if a borrower lays off workers or reduces their pay, then the amount of the loan that is forgivable is reduced proportionately to the reduction in work force and pay.

The bill does include an exemption for rehires. If a company, not later than June 30, 2020, rehires the employees laid off and restores any pay reduction, then the loan shall still be forgivable as if the lay off or pay cuts had not happened.

While forgiven debt is usually treated as income for tax purposes, here that rule will not apply. The forgiven debt will not be taxable as income for federal income tax purposes. This ensures that businesses are not bearing a heavy tax burden next year as a result of this crisis.