

Comparison of *SBA Economic Injury Disaster Loan and Paycheck Protection Programs*

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief and Economic Security Act (CARES Act), in response to the economic effects of the COVID-19 virus. The CARES Act contains the following key components with respect to the SBA Economic Injury Disaster Loan program (**EIDL**):

1. expands eligibility to include private nonprofit organizations and small agricultural cooperatives;
2. waives personal guarantees on loans under \$200,000;
3. waives the “unable to obtain credit elsewhere” provisions; and
4. provides organizations with immediate funding of \$10,000 upon application once eligibility has been verified.

In addition to the EIDL expansion, the CARES Act adds a new Paycheck Protection Program (**PPP**) to the SBA’s section 7(a) lending program. The PPP offers loans of up to \$10 million for businesses to maintain payroll and related benefits, interest on mortgages and other debts, leases and utility payments. All of this adds up to tremendous opportunities for organizations to get the help they need. Here is how we can help:

Take action now

We recommend organizations get started immediately and take advantage of assistance programs while funds are available. Banks are still looking for guidance on how to process the programs. While the banks are getting organized, reach out to your banker and let them know you will be applying for a program. Get financial information pulled together, and meet with your CLA advisors to help you strategically look at your needs and choose the program(s) best suited for your situation.

Action steps you can take

- Contact your bank as soon as possible to get your organization registered. Confirm that your bank is an SBA-approved bank, as this is required in order to access funds.
- Reach out to your accountant to help you evaluate your cash flow needs and the potential benefits of the new programs that are available.
- As part of the application process, discuss with your accountant the need for certified payroll and personal financial statements for owners.
- While we are still looking for clarification on what information will be required as part of the application process, consider pulling the following information together:
 - Documentation for the average monthly payroll and average monthly full-time equivalents, based on the 12 months from April, 2019 through March, 2020. (There are payroll limitations that need to be considered.)

- The average payroll by category: salary, hourly, commissions, vacation, sick leave, group health care (both union and non-union) and retirement contributions (both union and non-union).
- The monthly rent (or mortgage interest) over the last 12 months.
- The amount spent on utilities over the last 12 months.
- The interest on mortgage and any other debt obligations that were incurred before 2/15/2020.
- The tax ID# and full legal name of each entity.
- Ownership information to assist in evaluation of the impact of affiliate entities. For any owners who have more than a 50% ownership interest, obtain a complete listing of other entities in which they also hold more than a 50% ownership interest.
- Documentation on any other COVID-19 relief programs you are applying for (e.g., payroll tax credits, etc.).

To help you begin to understand the major programs being offered, see below for a summary of key provisions of the EIDL program and PPP. This information is subject to change as more details are released. One important note is that the PPP and the EIDL program can be used together, as long as the loans are not used to fund the same costs.

	Economic Injury Disaster Loan (EIDL)	Paycheck Protection Program (PPP Section 7(a))
Administrator	SBA	SBA Approved Financial Institutions
Amount of Loan	Up to \$2 million	<ul style="list-style-type: none"> • Lesser of \$10 million or 2.5 times average monthly payroll costs incurred during the 12-month period prior to the loan date. • Calculations for seasonal and new business can vary
Interest Rate	For- Profit 3.75% Non-Profit 2.75%	4% or less
Term/ Maturity	Up to 30 years	Up to 10 years
Deferral	12 months (interest accrues during deferment)	6 to 12 months (interest accrues during deferment)
Prepayment	Prepayment is eligible	Prepayment is eligible
Eligibility*	<ul style="list-style-type: none"> • Small businesses in all U.S. States and territories, including sole proprietors or independent contractors • Private nonprofit organizations • Small agricultural cooperatives • Tribal small business concerns • ESOPs • Fewer than 500 employees* 	<ul style="list-style-type: none"> • Small businesses in all U.S. States and territories, including sole proprietors, independent contractors and eligible self-employed individuals • 501 (c)(3) nonprofit organizations • 501 (c)(19) veterans organizations

	Economic Injury Disaster Loan (EIDL)	Paycheck Protection Program (PPP Section 7(a))
		<ul style="list-style-type: none"> • Tribal small business concerns • Fewer than 500 employees in most instances, more in certain industries*
Usage	Fixed Debts, payroll and related benefits**, accounts payable and other expenses that cannot be paid because of the disaster's impact	Payroll and related benefits** Interest on mortgage payments or other debts, rents and utilities
Cannot be used for	Refinancing of debt, payment of other SBA loans or lenders, tax penalties, civil fines, repairs of property or other physical damage, pay dividends or distributions to owners or partners	Limited to uses noted above (EIDL may be eligible to be refinanced into a PPP loan)
Collateral	If available, collateral will be taken on loans greater than \$25,000	No collateral from business or its owners
Loan forgiveness and grant eligibility	Emergency grant up to \$10,000 (EIDL may be eligible to be refinanced into a PPP loan)	<ul style="list-style-type: none"> • Eligibility is based on specific requirements • Forgiveness*** available on a portion of the loan proceeds if employers retain employees during specified period
Guarantees	Waives requirement of personal guarantees on loans less than \$200k	None
Can I Apply Now?	Application process and loans are available now	Participating institutions are preparing to accept applications, but applications cannot be processed until SBA provides regulations.

*Alternate revenue size standards do not apply to the EIDL or the PPP, but alternate (increased) employee-based size standards do apply to the PPP for some industries. Affiliated entities are included in the evaluation for most industries, except franchises and NAICS code 72, Accommodation and Food Services, and SBIC funded businesses for the PPP.

**Excludes salaries in excess of \$100k or qualified sick and family leave covered under sections 7001 and 7003 of the Families First Coronavirus Response Act.

***Forgiveness amount determined considering factors such as full-time equivalents and payroll rate reductions compared to a defined pre-COVID-19 impacted benchmark period. Forgiveness is non-taxable.

Navigating an Emergency Loan

Key insights

- Businesses looking to help offset reduced revenues might consider applying for an emergency loan.
- As part of the application process, you may be required to submit a personal financial statement or certified payroll.
- Before you begin the application process, you'll want to brush up on the specifics.

The coronavirus (COVID-19) pandemic is a tragedy. Moreover, the impact of COVID-19 and our response to try to suppress it are changing minute by minute. From an economic perspective, we are only beginning to understand the extent of that impact. What we do know is many organizations are already suffering, and some operations have been reduced or shut down entirely. Reduced revenues are also resulting in working capital declines that are worrisome. As a result, there is an urgent need for financing.

Government agencies, the Federal Reserve (Fed), and financial institutions are all working to ensure the flow of credit continues throughout the pandemic. The Fed is temporarily relaxing regulatory requirements, lowering rates, and embarking on unlimited quantitative easing. Additionally, the Small Business Administration (SBA) is now offering [Economic Injury Disaster Loans](#) to eligible [small](#) businesses and nonprofits, and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which is still pending at the time of this writing, will provide even more financing options.

This may provide organizations with an opportunity to secure new financing. Typically, the first step is to complete an application. Many application packages require would-be borrowers to submit two items that often create confusion:

- Personal financial statements for owners
- Certified payroll

What are personal financial statements?

A personal financial statement summarizes a person's or family's assets, liabilities, and net worth. It is often prepared to help obtain credit, perform financial planning, as part of tax and estate planning, or to disclose financial affairs. While there are some similarities to your business's financial statements, there are also key differences. For example, most personal financial statements value assets at their estimated current value and liabilities at their current estimated amount, while businesses' financial statements generally use historical cost for valuation. Additionally, you may need to submit your personal financial statement on a prescribed form, such as [Form 413](#) for SBA loans.

What is a certified payroll?

Government programs often include compliance requirements related to payroll. For example, you may be required to include a certification that payroll data matches original records. Lenders often request a certified payroll during the application process and throughout the term of the loan to verify the borrower is meeting the compliance requirements within the loan documents. The certified payroll typically includes some compliance statements and must be signed by the borrower. At times, a certified public accountant must also sign the document.