



COVID-19 Client Update

Overview of SBA Loans Under the Paycheck Protection Program Provision of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act

On Friday, March 27, 2020, the Federal government enacted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act to provide economic relief for the devastation resulting from the current COVID-19 pandemic. The largest spending law in US history, the CARES Act includes provisions that directly impact individuals and businesses on numerous levels.

One provision of the CARES Act provides Paycheck Protection Loans (“PPLs”) intended to assist small businesses, including not-for-profit organizations, in maintaining their payroll and operating costs during this time of uncertain and diminished revenue. This will be done through federally guaranteed loans administered by the Small Business Administration (“SBA”) and made by SBA-approved lenders.

ELIGIBILITY

Who is Eligible for Paycheck Protection Loans (PPLs)?	Businesses with not more than 500 employees, including not-for-profit organizations Sole proprietorships, independent contractors and eligible self-employed individuals Restaurants/hospitality businesses (though special rules apply) Businesses that were in operation on February 15, 2020 with employees and/or paid independent contractors
Other Eligibility Details	Lenders shall not consider if an applicant is able to obtain credit elsewhere PPLs are nonrecourse, with no personal guarantee or collateral required, and no recourse against any individual shareholder, member or partner for nonpayment except if proceeds are used for other than allowable uses, discussed below Applicants shall make a good faith certification to acknowledge: <ul style="list-style-type: none"> ○ That the uncertainty of current economic conditions makes necessary the loan request to support ongoing operations ○ That funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments ○ That the applicant does not have an application pending, nor has received during the period beginning on February 15, 2020 and ending on December 31, 2020, a loan under Section 7(a) of the Small Business Act for the same purpose and amount as the PPL

MAXIMUM LOAN AMOUNT

Maximum Loan Amount	The loan amount is determined by the product obtained by multiplying 2.5 by the average total monthly payments for payroll costs incurred during the 1-year period before the date on which the loan is made
	Special calculations for payroll costs for seasonal employers, as determined by the SBA, apply
	Special calculations apply for businesses not in business during the period beginning on February 15, 2019 and ending on June 30, 2019, and for businesses with existing SBA loans
	Loans shall not exceed \$10million

PAYROLL COSTS

Payroll costs are the sum of payments of any compensation with respect to employees and are intended to include:	Salary, wage, commission or similar compensation
	Payment of cash tip or equivalent
	Payment for vacation, parental, family, medical, or sick leave
	Allowance for dismissal or separation
	Payment required for the provisions of group health care benefits, including insurance premiums
	Payment of any retirement benefit
	Payment of state or local tax assessed on the compensation of employees
	The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100K in 1 year, as prorated for the period February 15, 2020 to June 30, 2020

Payroll costs shall NOT include:	Compensation of an individual employee in excess of an annual salary of \$100K, as prorated for the period February 15, 2020 to June 30, 2020
	Federal payroll taxes
	Any compensation of an employee whose principal place of residence is outside of the US
	Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act ("FFCRA")
	Qualified family leave wages for which a credit is allowed under section 7003 of the FFCRA

ALLOWABLE USES OF LOAN PROCEEDS

<p>During the period of February 15, 2020 to June 30, 2020, loan proceeds may be used for:</p>	Payroll costs
	Costs related to the continuation of group health care benefits during periods of paid sick leave, medical or family leave, and insurance premiums
	Employee salaries, commissions, or similar compensations
	Payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation)
	Rent (including rent under a lease agreement)
	Utilities
	Interest on any other debt obligations that were incurred before February 15, 2020

LOAN FORGIVENESS

<p>Loan Forgiveness</p>	<p>PPLs are eligible for forgiveness, not to exceed principal, in an amount equal to the sum of the following costs incurred and payments made during the 8-week period beginning on the origination date of the PPL (the “covered period”):</p> <ul style="list-style-type: none"> ○ Payroll costs ○ Payments of mortgage interest ○ Payments on rent obligation ○ Utility payments
	<p>The amount of loan forgiveness shall be reduced by multiplying the amount by the quotient obtained by dividing the average number of full-time equivalent employees per month employed during the covered period by one of two denominators, at the election of the borrower. One is the average number of full-time equivalent employees per month employed during the period beginning on February 15, 2019 and ending on June 30, 2019. The other is the average number of full-time equivalent employees per month employed during the period beginning on January 1, 2020 and ending on February 29, 2020.</p>
	<p>The average number of full-time equivalent employees shall be determined by calculating the average number of full-time equivalent employees for each pay period falling within a month.</p>
	<p>The amount of loan forgiveness shall also be reduced by the amount of any reduction in total salary or wages of any employee who did not receive, during any single pay period in 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000, during the covered period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period.</p>

Loan Forgiveness (Cont'd)	The reduction in the amount of loan forgiveness due to reduction in full time equivalent employees or reduction in salary shall not apply when during the period beginning on February 15, 2020 and ending on April 26, 2020 there is a reduction as compared to February 15, 2020 in the number of fulltime equivalent employees and/or in the salary or wages of 1 or more employees and not later than June 30, 2020 the reductions have been eliminated.
	The forgiveness application documents that must be submitted to the lender include: <ul style="list-style-type: none"> ○ Documentation verifying number of full-time equivalent employees on payroll and pay rates for the periods described above, including IRS and state payroll tax reports ○ Documentation such as canceled checks and invoices verifying payments of eligible costs ○ Certification that documentation is true and correct and that the amount for which forgiveness is requested was used for eligible purposes
	The decision on forgiveness will be issued within 60 days from the date the forgiveness request is received by the lender
	The amount of forgiveness is not includible in gross income for federal income tax purposes
	30 days after enactment of the CARES Act, the SBA shall issue guidance and regulations implementing this section regarding forgiveness

LOAN TERMS

Maximum maturity of loans is 10 years from the date the borrower applies for loan forgiveness. There are no prepayment penalties. The interest rate on the loan shall not exceed 4%. Payments of principal, interest and fees are deferred for a period of not less than 6 months and not more than 1 year.