



## CARES Act – Paycheck Protection Program

On Friday, March 27, 2020, the CARES Act /Paycheck Protection Program (PPP) was signed into law. This allows the SBA to guarantee loans to businesses adversely impacted by COVID-19. The new program allocates \$350 billion for the [Small Business Administration \(SBA\)](#) to fund loans for businesses of up to 500 employees, and more for certain industries such as accommodation and food services. These loans for up to \$10 million per business are designed to maintain payroll, plus pay mortgage, rent or utilities, as needed. Because the primary aim of this program is to keep people employed, there will be opportunity for all or a portion of the loans to be forgiven if certain conditions are met.

While the SBA is currently reviewing the act and preparing the details for the program, the information below will allow you to start determining if you can participate.

### *Eligible Borrower:*

- Any small business, nonprofit 501(c)(3) organization, or Tribal business concern that was in operation on February 15, 2020
- Has no more than 500 employees. If your business has more than 500 employees, you might still be eligible if you meet the standard SBA Size Standard for your industry. Check here <https://www.sba.gov/size-standards/>
- If your business has a NAICS code starting with "72" (accommodations and food services), you are still eligible if there are not more than 500 employees per location

### *Loan Terms:*

- Maximum loan amount is:
  - 2.5 times the average total monthly payments for payroll costs incurred during 1-year period before the loan is made (new and seasonal employers have an alternate calculation); (example if average monthly payroll was \$1,500,000, the maximum loan amount would be \$3,750,000).
  - There will be some exclusions for an employee with a salary greater than \$100,000 and, for this purpose, payroll costs include payments for family and medical leave, employee benefits, and state and local payroll taxes
  - Up to a maximum of \$10,000,000
- Proceeds must be used for payroll, mortgage, rent, utilities and specified debt service expenses
- Maximum 4% interest rate
- No loan fees
- No prepayment fees
- Payments deferred for initial 6 months
- 10-year term for amounts not forgiven
- Loan is unsecured
- No guarantees required
- Some or all of the loan can be forgiven, with no IRS obligation, if certain conditions are met relating to employee retention and compensation reductions

### ***Loan Forgiveness:***

- Total costs incurred and paid by the business for the following items during the eight-week period following the loan may be forgiven from the loan:
  - Payroll costs
  - Payment of interest on a mortgage or business loan that is the liability of the borrower
  - Payment of rent under a lease agreement
  - Utility costs
- The amount of forgiveness will be reduced based on employee retention and reductions in compensation

### ***What Businesses will need to get ready:***

- Gather detailed payroll information, including benefits-related expenses and state and local payroll taxes, if applicable. (Loans will be granted based on your company's payroll in the amount of 2.5 times average monthly payroll for 12 months prior to the loan, up to \$10 million. Please note some restrictions to eligible payroll expenses apply.)
- Businesses should gather 2019 payroll data along with 2020 year-to-date detail.
- Businesses in seasonal industries should provide average payroll information for the period beginning Feb. 15, 2019 through June 30, 2019.
- New businesses not in operation in 2019 should use average monthly payroll for the period beginning Jan. 1, 2020 through Feb. 29, 2020.

Right now, the SBA is reconciling the specifics of the new law, creating a simplified loan application to enable expedited processing of applications, and establishing a process for banks to accept and process these applications. We anticipate the processing of applications and funding of loans by early April.

As always, please feel free to call or email with any questions. We look forward to helping you access the relief we know many businesses need during this challenging time! We will continue to post up to date information on our dedicated [HT2 COVID-19 Webpage](#).

**HAMILTON THARP, LLP**