

Dear Clients,

We hope everyone is doing well through the Covid-19 virus of 2020. In addition, we hope that you, your family, and employees stay safe. Our firm would like to summarize the two main ways your business can get cash quickly now that the CARES Act is a law.

1. Economic Injury Disaster Loans

Businesses in every state and territory are now eligible to apply for Economic Injury Disaster Loans (EIDLs). EIDLs can be approved by the Small Business Administration based solely on an applicant's credit score. EIDLs smaller than \$200,000 can be approved without a personal guarantee. Borrowers can receive \$10,000 in an emergency grant cash advance that can be forgiven if spent on paid leave, maintaining payroll, increased costs due to supply chain disruption, mortgage or lease payments or repaying obligations that cannot be met due to revenue loss. The remaining part of the loan is *not* forgivable.

The Small Business Administration offers many favorable terms in their EIDLs:

- Loans are up to \$2M
- The term is 30 years
- Interest Rates are 3.75% for small business and (2.75% for non-profits)
- The first month's payments are deferred a full year from the date of the promissory note.

You apply for these loans directly through the SBA at www.SBA.gov/disaster. There are no loan fees, guarantee fees or prepayment fees. Make sure to apply for Economic Injury for the Coronavirus, rather than physical damage due to another disaster (that is a different declaration number).

2. Paycheck Protection Program Loan Guarantee

Under this program, the SBA backs small-business loans through local lenders with a loan forgiveness component. The loan forgiveness is nontaxable to the business. The SBA is currently working with 1800 lenders and planning to expand that given the anticipated demand.

Here are the particulars of this loan program:

- Offered to small businesses with fewer than 500 employees (have to be in operation before February 15, 2020)
- Self-employed, sole proprietors, freelance workers are also eligible to apply (again, you have to be in operation before February 15, 2020).
- Loans are given up to a maximum of the lesser of \$10 million, or 2.5 times the average monthly payroll costs – including wages for employees making under \$100,000, as well

as expenses for paid sick leave, healthcare and other benefits - during the 1-year period before the date on which the loan was made.

- The maximum interest rate under this program is 4%
- The loan term is up to 10 years
- No personal guarantee or collateral is required for the loan
- Payments are deferred up to six to 12 months
- *Part of this loan may be forgiven and not counted as income to you, if it's spent during the first eight weeks on operating expenses*

Loan Forgiveness - Paycheck Protection Program Loan Guarantee

Loans are forgiven when the proceeds are used for any of these costs:

- Payroll costs, excluding prorated amounts for individuals with compensation greater than \$100,000
- Rent pursuant to a lease in force before February 15, 2020
- Electricity, gas, water, transportation, telephone, or internet access expenses for services which began before February 15, 2020
- Group health insurance premiums and other healthcare costs.

In order for the amounts to be forgiven, you must maintain the same average number of employees for the first eight-week period beginning on the origination date of the loan as you did from February 15, 2019 - June 30, 2019 **or** from January 1, 2020 until February 15, 2020. If you don't meet this requirement, the amount forgiven is reduced.

You won't be penalized for a reduction in employment or wages during the period from February 15, 2020 to April 26, 2020, if you rehire employees that you previously laid off or restore any decreases in wages or salaries by June 30, 2020.

As I mentioned above, you apply for the Paycheck Protection Loan directly through your local lending institution.

I have attached a handy guide prepared by the US Chamber of Commerce that summarizes the details easily for this loan.

Tips

- No downside to applying. If you need funding now, or think you may need it in the future, you might as well apply now. You're under no obligation to take the loan. And as I mentioned, there are no guarantee fees, servicing fee or prepayment fees.
- EDILs (Option 1) are based on working capital needs, so make sure you have a good sense of what those are.
- You can apply for both types of loans, as long as **they cover different expenses** (not a duplicative purpose).
- EDILs apply directly through the website. www.SBA.gov/disaster

- Make sure to specify the economic loss as it pertains to COVID-19. There's no need to fill out the physical damage part, if that doesn't apply to you.

The SBA has up to 30 days to roll the program out to the banks. You could also discuss a line of credit with your lending institution for an immediate financial assistance as an option.

If you have any questions, please do not hesitate to contact me at 304-744-4500 or stevenharmoncpa@gmail.com.

Sincerely,

Steven Harmon