

COVID-19 SBA Federal Loans Converted as 'grants'

CARES Act Plain English Business
Loan Provisions as of 3.25.20

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James Justice
President
Turth at Work of Birmingham

Summary of Generally-Applicable Business Lending Provisions in the CARES Act March 25, 2020, 11:45 AM ET

Small Business Administration (SBA) “Paycheck Protection” Program

- The bill allows SBA to provide up to \$349 billion to businesses, with expanded eligibility for both borrowers and lenders.
- While structured initially as a 100% federally-guaranteed loan, **it is effectively a grant program for companies that retain workers on their payrolls**. After June 1, borrowers may seek forgiveness/cancellation of the debt to the extent employment levels are maintained.
- To be eligible, a business must have no more than 500 employees, with certain exceptions up to 1500 employees based on their NAICS code (mineral extraction, food/textile/wood manufacturing, for example, who were previously eligible for SBA loans). Accommodation and food service businesses can qualify if they have no more than 500 employees per location, and total annual receipts of less than \$500 million.
- All current SBA lenders are eligible to serve the new program, and the Secretary of the Treasury may approve additional lenders to participate. SBA is delegating to these lenders much of its normal bureaucratic role in loan approval.
- Maximum loan volume is the lesser of \$10 million, or 2.5 times monthly compensation (not including any compensation above a rate of \$100,000 per person per year). Roughly speaking, a business with 500 employees making \$100,000 per year over 2.5 months would qualify for the maximum amount (lots of rounding in that calculation).
- In the near term, borrowers and lenders would interact to initiate loans. Beginning this summer, borrowers that qualify for forgiveness (virtually all) would seek cancellation from their lender, who would then work with SBA to collect on the guarantee.

Assistance to “Severely Distressed Sectors”

- A handful of particularly hard-hit companies (airlines, Boeing, etc) will receive some combination of grant and loan assistance from Treasury. Approximately \$100b will be available for such companies, with the amount per company tied to payroll costs.
- Approximately \$400 billion will be used to capitalize Federal Reserve facilities or programs to leverage broader assistance across the economy. The \$400 billion should be thought of as a loan loss reserve, bank capital, etc. Treasury expects that the Federal Reserve could supply up to \$4 trillion of liquidity through this process.
- The legislation before Congress provides very few details of how the program would work, and the Federal Reserve/Treasury have not provided detail as yet about their plans, which may not be fully formed and may change.
- The bill allows the Federal Reserve to “purchase obligations or other interests” directly from issuers, in secondary markets, or “otherwise”. This language allows a wide range of possible approaches.
- In lieu of placing detailed requirements on this part of the bill, Congress has created new oversight bodies to review, and perhaps second-guess, the operation of this program after the fact.