

PAYCHECK PROTECTION PROGRAM

SBA COVID-19 RELIEF LOAN

With the passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act, the Federal Government has allocated \$350 billion to the Small Business Administration to be distributed as special 7a loans. These loans are meant to help maintain a company's payroll and help with operating expenses during the Pandemic. This portion of the CARES Act is what's known as the *Paycheck Protection Program*.

An important feature of these loans is that they are eligible to be forgiven by the Government if certain conditions are met.

In this quick guide, we will go over everything you need to know about how to apply for these loans, who is eligible to receive them, and what parts of them qualify for forgiveness.

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LOAN ELIGIBILITY

There Are Three Primary Standards Of Eligibility For This Program:

- » You have to have 500 or fewer employees (full-time, part-time and any other staff except for hospitality and food service the employee rule is applied by physical location)
- » You have to have been in business on February 15, 2020
- » You have to have employees for whom you paid salaries and payroll taxes

More Specifically, The Following Groups Are Also Eligible:

- » A small business that otherwise meets the [SBA's size standard](#)
- » A 501(c)(3) with fewer than 500 employees
- » An individual operating a sole proprietorship
- » An individual who operates as an independent contractor
- » An individual who is self-employed who regularly carried on any trade or business
- » A tribal business concern that meets the [SBA's size standard](#)
- » A 501(c)(19) veterans organization that meets the [SBA's size standard](#)
- » If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- » Lastly, if you are operating as a franchise or receive financial assistance from an approved small business investment company, the normal affiliation rules do not apply

Additionally, lenders will ask for a good faith certification that the current economic situation makes this loan necessary to continue business operations, that they will only use the loan for the approved uses, and that they don't already have a loan pending for the same purpose. In the event that you already have an SBA Emergency Loan (made between Jan 31, 2020, and the start of the CARES Act), it can be folded into a new SBA loan as part of the CARES Act.

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LOAN AMOUNTS AND TERMS

The loan can be 2.5 times your average monthly payroll costs during the one year period preceding the origination date of the loan and can't exceed \$10,000,000. If you weren't in business in 2019, it will be 2.5 times the average monthly payroll for January and February 2020.

The following counts as payroll:

- » Salary, wage, commission, or similar compensation
- » Payment of cash tips or equivalent
- » Paid vacation, family and sick leave
- » Payment of retirement benefits
- » Allowance for dismissal or separation
- » Payment required for the provisions of group health care benefits, including insurance premiums
- » Payment of state or local tax assessed on the compensation of the employee

For Sole Proprietors, Independent Contractors and Self-Employed Individuals: The sum of payments or any compensation to or income that is a wage, commission, income, net-earnings or similar compensation from self-employment and that is an amount not more than \$100,000 in one-year, as pro-rated for the covered period.

The following do not count as payroll:

- » Employee compensation over \$100,000 a year, \$8,333.33 per month
- » Federal tax withholdings
- » Compensation for employees that live outside of the U.S.
- » Sick and family leave provided by the *Families First Coronavirus Response Act*

SBA Loans Issued Under The CARES Act Are Packaged As 7(a) Loans. They Have:

- » A 1.00% fixed interest rate
- » 2 year repayment period
- » Repayment may be deferred for the first 6 months

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LOAN PARAMETERS

Loan proceeds can be spent on the following areas:

- » Payroll support, including paid sick, medical, or family leave, and costs related to the continuation of group health care benefits during those periods of leave
- » Employee Salaries
- » Interest on business and mortgage debt
 - This is only for debt incurred prior to 2/15/2020
- » Rent (including rent under a lease agreement)
- » Utilities

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LOAN FORGIVENESS

Payroll Protection Loans are eligible for forgiveness of the amount equal to what the borrower spent during the 8-week period beginning on the origination date of the loan for:

- » Payroll costs (same criteria used to determine eligibility)
- » Rent (including rent on a lease agreement)
- » Utility payments (gas, water, power, transportation, internet, and telephone)
- » Interest on business debt and mortgage obligations
- » Additional wages given to tipped employees

This forgiveness will decrease if an employer reduces its number of employees during the covered period. If you reduce an employees salary by more than 25% they will be excluded as an employee in this calculation. However, reductions in employees or wages that occur between February 15, 2020, and ending 30 days after the enactment of the CARES Act won't reduce the amount of loan forgiveness if the borrower restores these employees and wages by June 30, 2020.

The Amount The Loan Forgiveness Will Be Reduced By Can Be Determined In The Following Ways:

- » For a decrease in the number of employees:
 - Multiply the average monthly payroll cost by the average number of full-time employees per month for the 8 weeks after the loan was originated
 - Divide this number by the average number of full-time employees you had from February 15, 2019 - June 30, 2019

(Alternatively, if you were not in business during that time, you would divide by the average number of full-time employees you had from January 1, 2020 - February 29, 2020)

For A Decrease In The Wages Of Employees:

- » Start with the average monthly payroll cost
- » Subtract from it the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter

It is critical that all documentation you provide is true and accurate, and if it is incorrect, the SBA can pursue you directly for fraud under their criminal code

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HOW TO APPLY

To start the application process, please visit our application page at <https://www.sunwestbank.com/SBA-Relief/> or contact your Sunwest Bank relationship manager.

To get access to the forms you will need, please visit our SBA COVID-19 Downloads page at <https://www.sunwestbank.com/lending/sba/sba-covid-19-downloads/>.

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