

Small businesses can apply for SBA-backed CARES Act loans this week

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Local lenders are ramping up for a flood of applications as the coronavirus stimulus package's Paycheck Protection Program — a \$349 billion loan program for small businesses — takes effect.

Businesses with up to 500 employees can begin applying for up to \$10 million through an existing U.S. Small Business Association (SBA) lender as soon as Friday, according to guidelines released Wednesday morning. Independent contractors and self-employed individuals can apply April 10.

Behind the scenes, local banks are working in overdrive to implement the program.

"We're in the process of re-organizing to prepare for applications," said Daniel Pische, senior VP with First American Bank in Coral Gables. Pische said he could not confirm if the bank will be ready to roll out the program Friday.

According to the updated guidelines, businesses may apply for loans that cover up two months of average payroll costs (capped at \$100,000 per employee) from the previous year, plus an additional 25% of that amount. All loans have two-year terms and a fixed interest rate of 0.5%.

The SBA-backed loan can be fully forgiven if borrowers demonstrate at least 75% of the funds were used to cover payroll expenses. Loan repayments will be deferred for six months.

The program's low interest rate is good for borrowers, but could potentially reduce the number of loans made by banks, said Greg Bader, an attorney and shareholder with Gunster's Fort Lauderdale office.

There is a secondary market that purchases SBA loans and provides banks with capital to make new loans. The low 0.5% rate "effectively kills off" that secondary market, Bader said, which means banks could be limited to lending with the capital they have on hand. As a result, some banks could make fewer loans, or stick with lending to existing customers only.

"It's possibly the [U.S. Department of the Treasury] will step in to buy the paper and fill the secondary market void, but that is unclear at the moment," Bader said. "It's an evolving situation, so there may be clarification soon."

How to qualify for loan forgiveness

Any small business suffering financial losses due to the coronavirus pandemic can apply for a loan under the Paycheck Protection Program. To qualify for loan forgiveness, borrowers must prove funds are used to cover payroll, mortgage, rent, benefits and utilities expenses. Borrowers that do not use funds for those purposes, and who do not maintain staff, will be required to repay the full amount of the loan when it is due.

Only businesses in operation before Feb. 15, 2020 can apply.

According to the guidelines, businesses that laid off employees before receiving a loan can qualify for forgiveness if they rehire those individuals and restore full-time employment and salary levels by June 30.

While the program is generally limited to businesses with fewer than 500 employees, there are exceptions for the hotel and food services industries, which have been among the hardest-hit by coronavirus-related business closures.

What if a business has already applied for an SBA Economic Injury Disaster Loan?

The SBA this week announced that borrowers who apply for a Economic Injury Disaster Loan can receive an advance of up to \$10,000 within three days after their application is submitted.

According to the updated guidelines, businesses that receive an EIDL advance can still apply for a loan under the Paycheck Protection Program. If a business receives the advance, it will be subtracted from the loan amount forgiven by the PPP.

Timeline for relief

It usually takes 30 days or less for a business to receive an SBA loan, if approved, said Yvonne Boucugnani, VP SBA team leader for Miami-based Amerant.

But it could take longer to receive funds under the Paycheck Protection Program since businesses from across the U.S. will be applying for relief at the same time.

"The SBA usually responds to regional disaster, but this is national," she said. "The lag time could be long."

Boucugnani said Amerant will begin taking applications for the Paycheck Protection Program on Friday.

How to apply

Business can apply through any existing SBA 7(a) lender, including banks and credit unions. Applications are not yet available, but the SBA released a sample form so potential borrowers can see what will be required.

To apply, business must provide their lender with payroll documentation and federal tax returns, which will be used to calculate their eligible loan amount. As part of the application, borrowers must certify they are taking out the loan due to coronavirus-related economic uncertainty.

The application period ends June 30.

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