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The CARES Act Provides Much Needed Financial Relief for Small Businesses

[Michael Joseph Montalbano](#)



On March 27, 2020, Congress passed, and the President signed into law, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The CARES Act is a massive \$2.2 trillion law designed to stabilize the United States’ economy as the country deals with the novel coronavirus COVID-19.

One major component of the CARES Act is the \$349 billion set-aside to provide relief for small businesses in the form of loans and other financial resources. Here we discuss the major components of this program that all small businesses need to know before deciding whether they should apply for one of these loans.

Corporations, Sole Proprietorships, and Other Business Organizations and Nonprofits Eligible for Small Business Loans under the CARES Act

- Business concerns, nonprofit organizations, veteran organizations, or tribal business concerns that have 500 or fewer employees or qualify under a size standard established by the North American Industry Classification System.
- Sole proprietors, independent contractors, and eligible self-employed individuals.

The lesser of:

- Two-and-a-half times the average total monthly payroll costs for the one-year period before the loan was made.

“Payroll costs” include payments for employee compensation; vacation; parental, family, medical, and sick leave; health care benefits; severance; retirement benefits; and state or local taxes assessed on employee compensation.

If the entity was not in business for at least a year, the payroll costs used to calculate the loan size are those incurred from January 1, 2020, to February 29, 2020.

Or:

- \$10 million.

The CARES Act also increases the cap for “express loans” from \$350,000 to one million dollars until January 1, 2021.

Allowable Expenses

The loan may be used to pay any of the following expenses:

- Payrolls costs (see above)
- Mortgage interest
- Rent
- Utilities
- Interest incurred on debts

Loan Forgiveness

payroll costs, mortgage interest, rent, and utilities during the eight weeks after the origination of the loan. The amount forgiven cannot exceed the amount borrowed.

- The amount eligible for loan forgiveness may be reduced if the borrower reduces its workforce during the loan period or reduces the wages of any employee by more than 25 percent compared to the previous quarter (excluding employees that made \$100,000 or more during the previous year).
- The amount eligible for loan forgiveness will not be reduced if the borrower reduced the workforce or wages between February 15, 2020, and April 26, 2020, but subsequently restored workforce levels and/or wages by June 30, 2020.

Loan Conditions and Repayment of the Loan

- Eligible small businesses and individuals can apply for these loans until June 30, 2020.
- The loans will be distributed through the Small Business Administration's ("SBA") 7(a) lenders.
- Borrowers must make a good faith certification that the loan is necessary because of the uncertainty caused by "current economic conditions" and acknowledge that the funds will be used for allowable expenses (see above).
- Borrowers do **not** need to certify that they are unable to obtain credit elsewhere.
- The interest rate on the loan cannot exceed 4 percent.
- Payments on the loan (including interest and fees) are deferred for at least six months and up to a year.
- The maximum duration of the loan is 10 years after the borrower applies for loan forgiveness.
- The SBA is prohibited from assessing fees in connection with the loan or requiring a personal guarantee or collateral.

Main Takeaways

The SBA loans offered under the CARES Act will help small businesses trying to maintain their workforce, and manage expenses such as rent and utilities, through

maintaining its workforce and pay levels, then the entire loan amount may be forgiven or substantially reduced. A significant sum (\$349 billion) was set aside for these loans. It is imperative that small businesses in need of these loans apply before the loan application window expires on June 30, 2020.

As COVID-19 issues permeate virtually all aspects of commerce nationally and internationally, we stand ready to help. [Blank Rome's Coronavirus \("COVID-19"\) Task Force](#) includes interdisciplinary resources across every business sector from insurance recovery to HR.

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