

# New SBA Program

## as a result of the CARES Act

March 30, 2020

The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law on Friday, March 27th. The act includes a provision for SBA loans to businesses meeting certain qualifications with loan forgiveness and payment deferral relief options.

Of the \$2 trillion stimulus package, approximately \$350 billion is allocated to expanding SBA offerings. A preliminary review of the CARES Act shows the introduction of a new SBA loan program, called the Paycheck Protection Program. This is an economic relief program to provide access to capital for businesses negatively impacted by the COVID-19 pandemic. These

loans will be originated through SBA 7(a) lenders, including Commerce Bank. However, before 7(a) lenders can make loans under the program, the SBA must interpret the program and issue rule and program updates.

We understand that many customers are under significant stress at this time. Although final details of the Paycheck Protection Program have not yet been released by the SBA, Commerce Bank is working to get information out as soon as possible to help customers prepare application materials. We have team members working around the clock to help as many customers access this program as possible.

### Paycheck Protection Program

For the period from February 15, 2020 to June 30, 2020 the SBA may provide 100% federally backed loans up to a maximum amount to eligible businesses to help pay operational costs. Subject to certain conditions, loan amounts are forgivable.

#### Eligibility

- Any business concern, non-profit organization, veterans' organization or Tribal business meeting the below eligibility requirements
- Business must have 500 or less employees to participate (includes full-time, part-time and those employed on other basis); or
- Must meet the employee size standard established by the SBA for the industry in which the entity operates if larger.
- Special affiliation waivers for businesses in the hospitality and dining industries, franchisees holding a franchise listed on the SBA's registry of approved franchise agreements, or any business that receives assistance from a company licensed under a specific portion of the Small Business Investment Act

#### Requirements to obtain a loan

- The loan is needed to continue operations during the COVID-19 emergency;
- Funds will be used to retain workers and maintain payroll or make mortgage, lease, and utility payments;
- The applicant does not have any other application pending under this program for the same purpose; and
- From February 15, 2020 through December 31, 2020, the applicant has not received duplicative amounts for the same purposes through another loan under Section 7(a).
- A lender must consider whether the borrower was operating on February 15, 2020 and had employees or independent contractors for whom the borrower paid
- Please refer to the 'Preliminary Requirements Checklist' for documentation you can begin collecting in anticipation of additional SBA guidance

<p><b>Eligible uses of Loan Proceeds, in addition to uses already allowed under the SBA's Business Loan Program</b></p>	<ul style="list-style-type: none"> <li>• Payroll costs (certain exclusions apply)</li> <li>• Costs of continued group health care benefits during periods of paid sick, medical, or family leave</li> <li>• Salaries, commissions or similar compensations</li> <li>• Payments of interest on mortgage obligations</li> <li>• Rent/lease agreement payments</li> <li>• Utilities</li> <li>• Interest on any other debt obligations incurred before the covered period</li> </ul>
<p><b>Key Features</b></p>	<ul style="list-style-type: none"> <li>• SBA guarantee and ongoing servicing fees are waived</li> <li>• 100% loan guaranty</li> <li>• Maximum loan amount of \$10MM</li> <li>• Loan amount determined by borrower's total average monthly payroll costs for the most recent 12 months (excluding compensation above \$100,000/year employees), times 2.50, plus the outstanding amount of any SBA Economic Injury Disaster Loan (EIDL) between January 31, 2020 and the date that Payment Protection Program loans are available to refinance the EIDL loans (alternative loan amount calculations available for seasonal employer or entities that were not in operation between February 15, 2019 and June 30, 2019).</li> <li>• No collateral or personal guarantees are permitted to be required</li> <li>• No credit elsewhere test</li> </ul>
<p><b>Debt Forgiveness</b></p>	<p>The Program provides for possible debt forgiveness of eligible expenses of small businesses. The below information is a summary of description of important aspects of the debt forgiveness process, but is not an exhaustive list of all requirements or details of the process. Further information regarding the debt forgiveness process will be coming soon.</p> <p>This process provides the opportunity for indebtedness to be forgiven, and not taxed in an amount (not to exceed the principal amount of the loan) equal to the following costs incurred and payments made during the covered period (the 8-week period beginning on the date the covered loan is funded):</p> <ul style="list-style-type: none"> <li>• Payroll costs</li> <li>• Interest payments on mortgages</li> <li>• Rent</li> <li>• Utility payments</li> </ul> <p>Forgiveness amounts will be reduced for any employee cuts or reductions in wages. To substantiate their fixed expenses, borrowers will have to provide source documentation for payroll expenses, rent and mortgage payments, and utility expenses as well as proof of payment for those expenses to the lender that is servicing the loan. If the expenses are approved, the SBA will purchase that portion of the debt from the bank and reduce the borrower's loan principal. Forgiveness may not be provided for expenses that do not qualify under one of the above listed expense categories.</p>
<p><b>Terms</b></p>	<ul style="list-style-type: none"> <li>• Fixed interest rate of 4%</li> <li>• All loan payments deferred for a minimum of 6 months, up to a maximum of 12 months.</li> <li>• Maximum loan term of 10 years</li> </ul>