

**Paycheck Protection Program Loans – Small Business Administration Section 7(a) Loan Expansion**

To provide liquidity in the near terms, the federal government has greatly expanded the loan authority for the Small Business Administration (“SBA”) under Section 7(a) of the SBA Act to make loans to businesses or nonprofits with fewer than 500 employees.

Lender:	SBA approved lender (SBA is granted authority to approve additional lenders) or SBA may make loan directly
Guarantor:	100% by Federal government
Covered Period:	February 15 to June 30, 2020 to make loans to eligible borrowers
Eligible Borrower:	Any business or nonprofit (qualified under Section 501(C)(3) of the Internal Revenue Code) with fewer than 500 employees, or if greater, an industry specific employee size standard set by the SBA. Eligible borrower also includes self-employed individuals. Both part-time and full-time are counted as a full employee. In determining eligibility, a lender shall consider whether the borrower was in operation on February 15, 2020, had employees who were paid compensation and remitted payroll taxes, or paid independent contractors and filed IRS Form 1099s.
Loan Amount:	Maximum loan amount is the lesser of (a) 250% of average monthly payroll for one year proceeding the loan plus the amount of any SBA Disaster Loan to be refinanced under this 7(a) loan program; and (b) \$10 million. If the borrower was not in existence from 2/15/19 to 6/30/19, the maximum loan amount is the lesser of (a) 250% of the average monthly payroll between 1/1/20 and 2/29/20, plus the amount of any SBA Disaster Loan refinancing, and (b) \$10 million. Average monthly payroll is subject to the limitations on “payroll costs” as discussed below.
Use of Proceeds:	In addition to uses already allowed under the SBA’s Business Loan Program, payroll costs, group health care benefits during periods of paid sick, medical or family leave, or insurance premiums; employee salaries and compensation; interest, rent and utilities. However, payroll costs are limited to \$100,000 (prorated for covered period) for an employee or self-employed person; and exclude payroll taxes during the covered period, compensation paid to non-resident, and qualified sick leave wages or family leave wages for which a credit is allowed under the FFCRA.

Personal Guaranty:	None, but there is personal liability for owners if loan proceeds are used for unauthorized purpose.
Borrower Certification:	Borrower must certify that the uncertainty of economic conditions makes necessary the loan to support ongoing operations and that the loan proceeds will be used for an authorized purpose.
SBA Fees:	Waived
Credit Elsewhere	No requirement that borrower establish inability to obtain credit elsewhere.
Collateral:	None
Maturity:	Subject to loan forgiveness provisions, maximum maturity is 10 years
Interest Rate:	Not greater than 4%
Repayment Deferral	Minimum of six months, but not more than one year, for deferral of all principal, interest and fees
Loan Forgiveness	Subject to reduction as set forth below, the principal amount of the loan shall be forgiven up to the amount that the borrower incurs and pays during the eight week period starting on the date of loan origination the following costs: (i) payroll costs (subject to the limitations set forth above); (ii) mortgage interest; (iii) rent and (iv) utilities.
Reduction of Loan Forgiveness Amount For Reduction in Number of Employees	The amount of loan forgiveness shall be reduced by the percentage reduction of full-time equivalent employees during the eight week period commencing on the loan origination date ("covered period") compared to the number of full-time equivalent employees of the borrower during either (at the option of the borrower) the period of 2/15/19 to 6/3-/19, or 1/1/20 to 2/29/20.
Reduction of Loan Forgiveness Amount Relating to Salary and Wages	The amount of loan forgiveness shall be reduced by the aggregate amount of salary or wage reduction of any employee during the covered period that exceeds 25% reduction of the total salary or wages paid to each such employee during the most-recent full calendar quarter for which the employee was employed prior to the covered period. Employees who earned during 2019 salary or wages at an annualized rate in excess of \$100,000 for any pay period are excluded.
Exemption for Re-Hires	The above reductions in the loan forgiveness amount shall be determined without regard to the reduction in the number of employees or the reduction in salary and wages of employees during the period from 2/15/20 to 4/26/20, if such reductions are eliminated by June 30, 2020

Exclusion from Income	The amount of loan forgiveness shall be excluded from gross income for federal income tax purposes.
SBA Disaster Loans	Recipients of SBA Disaster Loans are still eligible to receive a SBA Section 7(a) loan. A loan made under the SBA Disaster Loan Program after January 31, 2020 may be refinanced under the 7(a) loan program.

---

Meyers, Roman, Friedberg & Lewis  
Eton Tower  
28601 Chagrin Blvd., Suite 600  
Cleveland, Ohio 44122  
[www.meyersroman.com](http://www.meyersroman.com)  
phone: **216.831.0042**  
fax: **216.831.0542**

The information you obtain at this site is not, nor is it intended to be, legal advice.  
Please consult an attorney for individual advice regarding your own situation.  
Copyright © 2020 Meyers, Roman, Friedberg & Lewis - All Rights Reserved