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Basics of the Paycheck Protection Program

Economic Relief for Small Business during the COVID-19 Pandemic

Subject to change per SBA Guidance

What is the Paycheck Protection Program?

Congress just passed the *Keeping American Workers Paid and Employed Act*, which provides relief for small businesses and their employees who are adversely affected by the outbreak of COVID-19. One of the provisions is the "**Paycheck Protection Program**," an emergency lending facility, administered by the Small Business Administration (SBA) under its 7(a) lending program, to provide small business loans on favorable terms to borrowers impacted by the current state of economic uncertainty. As a non-bank 7(a) lender immito is assembling a team to facilitate requests under this program.

Congress intended the Paycheck Protection Program to accomplish two fundamental goals:

1) Help small businesses cover their near-term operating expenses during the worst of the crisis
2) Provide a strong incentive for employers to retain their employees

How does it work?

The program is designed for businesses and nonprofits (501(c)(3), with 500 employees or less as eligible for federally insured, potentially forgivable loans that can be used to cover short-term operating expenses during the economic crisis. Generally, the maximum loan size will be 2.5x the average total monthly payments for payroll costs incurred during the one-year period before the date in which the loan is made. Payroll costs are defined broadly to include wages, salaries, retirement contributions, healthcare benefits, covered leave, and other expenses.

The program includes a number of generous features for borrowers, including six months to one year of deferred repayment, fee waivers, and streamlined application requirements.

Most importantly, borrowers are eligible for loan forgiveness equivalent to the sum spent on covered expenses during the eight-week period after the loan is funded. Those covered expenses include the bulk of a typical business's fixed operating costs: payroll, rent, utilities, and mortgage interest obligations. The forgivable nature of these loans in effect turns them into grants, meaning that qualifying businesses will not see a significant increase in their debt burdens. But to qualify for forgiveness, employers must maintain their pre-crisis wages, or else face a reduction in forgiveness proportional to the reduction in wages. Since many businesses have already been forced to make staffing reductions in response to vanishing customers and lost revenues, the legislation includes a clause that allows them to qualify for loan forgiveness if they have re-hired back to pre-crisis levels by June 30, 2020.

Congress made the terms generous and the barriers to entry low to ensure resources would be made available as quickly as possible to needy businesses. Borrowers will need to certify at application that current economic conditions necessitate the loan to support ongoing business operations, and that the funds will be used to maintain payroll and address other covered expenses. This same certification will need to be made upon request for forgiveness.