

### CARES Act Helps Small Businesses Stay Open and Keep Employees With the Paycheck Protection Program (PPP)

Small businesses severely impacted by coronavirus. There are more than 30 million small businesses in the U.S. that employ roughly 120 million people. The shelter-in-place mandates by many states and other jurisdictions due to the COVID-19 outbreak have posed an economic hardship on many of these businesses. Although a nationwide call to stay at home had not been declared as of April 1, estimates are that roughly 75 percent of the nation, or at least 250 million people, were under orders to shelter in place. The declarations have put a significant portion of small employers, independent contractors, the self-employed and nonprofits out of work. Many have had to temporarily close, laying off or furloughing staffs, which has resulted in unemployment claims soaring nationwide. Without income many of these businesses will have a hard time covering rent and mortgage payments, which will negatively impact lenders and property owners over the coming months. The recently passed CARES Act contains provisions to help small businesses.

**The Paycheck Protection Program (PPP) offers assistance.** The PPP is a \$349 billion fund that is aimed to prevent job loss and the failure of small businesses because of the COVID-19 crisis. The program will deploy funds on a first come, first served basis, so businesses are urged to apply quickly. The program will provide forgivable loans to businesses with less than 500 employees and the loans are to be used by employers to pay their employees for up to eight weeks, including benefits, during the coronavirus pandemic. Borrowers can receive loan amounts for up to two months of their past year's average monthly payroll cost plus an additional 25 percent of that sum, although there is a \$10 million cap for each business. The loan proceeds can also be used to pay rent, utilities and interest on mortgages.

**Real estate owners who qualify may tap resources.** These funds may help to maintain their staff over the coming months. Operators of properties with tenants that could qualify for these funds might find it advantageous to notify the business owners of the program and work with them to complete the application and compile the necessary documents as quickly as possible. This may provide a tenant with the necessary funds for upcoming rent payments.

#### UPDATES FOR APRIL 6, 2020

Response to the PPP has been dramatic, inundating many lenders. Although some challenges emerged early, they are being resolved.

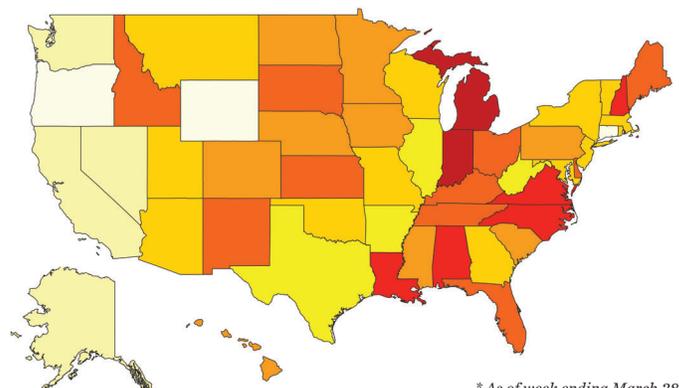
##### Processing issues:

- » Last-minute adjustments to SBA guidelines delayed many financial institutions' ability to process applications at midnight Friday, April 3, 2020, as planned.
- » Banks that were able to launch a website that could transmit applications to the SBA were flooded by borrowers, overwhelming their capacity.
- » Businesses that did not have a preexisting relationship with an SBA certified lender often had difficulty applying. Some banks have since expanded capacity to help new clients.

##### Capitalization and financing concerns:

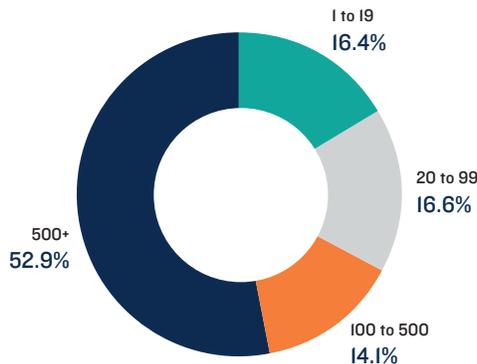
- » To alleviate liquidity challenges, the Treasury Department increased the interest rate that it guarantees on PPP loans to 1.00 percent.
- » The Federal Reserve announced on April 6 that it would backstop PPP liquidity with a facility to provide term financing. This will alleviate the funding gap that had begun to emerge.

#### Percent Increase in Jobless Claims Prior to Spike\*



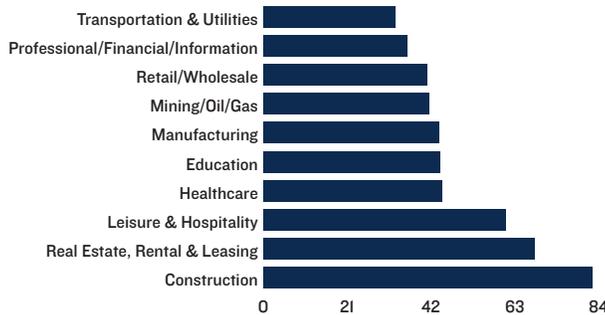
\* As of week ending March 28

Employment by Company Size\*



\* Total employment as of February 2020; share of employment by establishment size as of 2017. Establishment size determined by number of employees.

Sectors With Highest Concentration of Employment in Small Businesses\*



\* Excludes non-farm, other, and unclassifiable.

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PPP LOAN FORGIVENESS

For the loan to be fully forgiven, the employer must use the funds within eight weeks of receiving the loan for payroll expenses including benefits, rent, utilities and interest on mortgage, and 75 percent of funds must be used for payroll. In addition:

- » Employers must keep workers on payroll or quickly rehire.
- » Business have until June 30, 2020, to restore full-time employment and salary levels.
- » Once restaffed, businesses must maintain salary levels as loan forgiveness will be reduced if full-time headcounts decrease.

Loans are backed by the federal government, require no collateral or personal guarantee, and businesses do not need to show that credit is unavailable from another source. No fees will be charged by the lenders or the government, and if any loan payments are accrued, the payments will be deferred for six months.

Payroll Protection Program Qualifications

**Many small businesses qualify for funds:** Recipients that can receive loans through the PPP are employers with less than 500 employees and include veterans organizations, nonprofits, tribal entities, independent contractors, sole proprietorships and self-employed people. Some businesses with more than 500 employees in certain industries may also be eligible.

**Institutions providing loans.** The SBA has more than 1,800 SBA-approved lenders who started taking applications April 3 for sole proprietorships and small businesses, and beginning April 10, self-employed persons and independent contractors can apply. All loans will have the same terms regardless of lender and employers can apply through any existing SBA7(a) lender; participating federally insured depository institution or credit union; or Farm Credit System institution. Other lenders will be eligible as they are approved. The loans are 100 percent guaranteed by the Small Business Administration (SBA), which is waiving all guarantee fees. Businesses should keep in contact with their landlords and lenders and let them know they are applying for funds.

**Borrowers need to provide the following to apply:**

- Completed Paycheck Protection Program loan application.
- Proof the business was in operation on Feb. 15, 2020.
- Number of full-time equivalent employees for whom salaries and payroll taxes were paid.
- Amount of average monthly payroll costs.
- Monthly payment amount on eligible lease, mortgage and utilities.