



CARES Act Relief: SBA Loans and Grants

The CARES Act makes loans and grants available to small businesses, including sole proprietors and independent contractors, affected by COVID-19. The grants, and some of the loans, are administered directly by the Small Business Administration (SBA), a federal government agency. Other loans are administered by banks and other private institutions with backing from the federal government. Many music creators, musicians and music-related businesses may qualify for these loans and grants.

- Note: Additional information about CARES Act loans and grants is available at <https://musiccovidrelief.com/>.

Economic Injury Disaster Loans (EIDLs)

The EIDL program is an existing loan program under which the SBA provides emergency loans to businesses who are impacted by federally declared disasters. The CARES Act has expanded that program to cover self-employed individuals and small businesses impacted by COVID-19.

- ***Who is eligible?***

The following persons and entities are eligible if they were in business as of January 31, 2020:

- Small businesses, generally with 500 or fewer employees
- Those who operate as sole proprietors (with or without employees) or independent contractors
- Certain other entities, including non-profit organizations

- ***During what period are CARES Act EIDLs available?***

They are available January 31, 2020 through December 31, 2020.

- Note: We recommend that you apply as soon as possible, as government funding for these loans is limited.

- ***How much can I borrow?***

The maximum amount of an EIDL is generally capped at \$2 million but is limited to the amount of economic injury, as determined by the SBA.

- ***What else should I know about lending requirements for these loans?***

Under the CARES Act, EIDLs can be approved by the SBA based on the applicant's credit score alone rather than tax return information. Loans that are smaller than \$200,000 can be approved without a personal guarantee. The CARES Act also waives the regular EIDL requirement that applicants demonstrate they are unable to obtain a loan elsewhere. The CARES Act does not appear to waive the requirement of collateral for loans over \$25,000, however.

- ***Are there restrictions on the use of the loan proceeds?***

The loan proceeds have to be used to address COVID-19 concerns, but the parameters are pretty broad. The funds can be used to carry on normal business operations and/or to address the economic consequences of COVID-19, including providing sick leave to employees, maintaining payroll to retain employees, payment of rent or mortgage expenses and "repaying obligations that cannot be met due to revenue losses."

- ***What is the interest rate and schedule for repayment?***

The interest rate for COVID-19 EIDLs is 3.75% for small businesses, and 2.75% for nonprofits. The maximum period for repayment is 30 years, as determined by the SBA on a case-by-case basis.

- ***If I get an EIDL, can I also get an SBA Paycheck Protection Program (PPP) loan?***

Yes, you can apply for and obtain both so long as the funds are used for different allowable expenses. An EIDL can be refinanced into a PPP loan.

- ***Where do I apply for a CARES Act EIDL?***

You need to apply directly to the SBA:

<https://www.sba.gov/page/disaster-loan-applications#section-header-0>

Emergency EIDL Grants

Small businesses, individual proprietors (with or without employees) and independent contractors who apply for an EIDL can request an advance of up to \$10,000 of the loan proceeds to cover allowable expenses. The SBA is supposed to provide the advance within three days of receiving the loan application. Although it is called an “advance,” this amount is considered a grant and *does not need to be repaid*, even if you are later denied the EIDL.

- Note: Although under the CARES Act the SBA is authorized to provide grants up to \$10,000, it is our understanding that in many cases the amount actually being awarded will be much lower. The SBA has indicated it will be distributing \$1,000 “per employee,” up to a maximum of \$10,000.

- ***During what period are emergency EIDL grants available?***

They are available January 31, 2020 through December 31, 2020.

- Note: We recommend that you apply as soon as possible, as government funding for these grants is limited.

- ***Who is eligible?***

The following persons and entities are eligible if they were in business as of January 31, 2020:

- Small businesses, generally with 500 or fewer employees
- Those who operate as sole proprietors (with or without employees) or independent contractors
- Certain other entities, including non-profit organizations

- ***How much can I request in the form of a grant?***

You can request up to \$10,000 of EIDL proceeds to be treated as an “advance” that will not require repayment. The maximum amount of an EIDL is generally capped at \$2 million but is limited to the amount of economic injury as determined by the SBA.

- ***Are there restrictions on the use of the grant proceeds?***

The grant funds need to be used to address COVID-19 concerns. As with EIDLs, the funds can be used to carry on normal business operations and/or to address the economic consequences of COVID-19, including providing sick leave to employees, maintaining payroll to retain employees, payment of rent or mortgage expenses and “repaying obligations that cannot be met due to revenue losses.”

- ***What is the repayment obligation?***

As noted, the grant (or “advance”) does not need to be repaid, even if the applicant is not ultimately approved for an EIDL. If the recipient also gets a PPP loan, the amount of the advance is offset against any PPP loan forgiveness amount.

- ***Where do I apply for an EIDL grant?***

You need to apply directly to the SBA:

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loan-emergency-advance>

Paycheck Protection Program (PPP) Loans

The Paycheck Protection Program, part of the CARES Act, expands the availability of small business loans under the section 7(a) of the Small Business Act. Like other section 7(a) loans, the PPP loans are guaranteed by the federal government but administered through banks and other private financial institutions. The PPP portion of the CARES Act includes loan forgiveness provisions for loan funds that are used for payroll costs, compensation to self-employed individuals, and certain other expenses during the 8-week period after the loan is received.

- ***During what period are PPP loans available?***

They are available February 15, 2020 through June 30, 2020.

➤ Note: We recommend that you apply as soon as possible, as government funding for these loans is limited.

- ***Who is eligible?***

The following persons and entities are eligible if they were in business as of February 15, 2020:

- Small businesses, in general those with 500 or fewer employees
- Sole proprietors and independent contractors
- Self-employed individuals who regularly carry on a trade or business but are unable to work (or telework) because they
 - Have COVID-19 illness or symptoms
 - Are quarantined due to government order or medical advice

- Are caring for someone who is quarantined, or
- Are caring for their child due to a lack of childcare or because the child cannot attend school
- Certain other entities, including non-profit organizations

- ***How much can I borrow?***

The amount of a PPP loan is determined by a formula, subject to a \$10 million cap. A different formula is used for small business entities versus self-employed individuals (such as sole proprietors and independent contractors).

- For small business entities, the amount of the loan is the applicant's average monthly payroll cost (generally for the 12-month period preceding the loan) times 2.5, plus the outstanding amount of any COVID-related EIDL being refinanced under the PPP loan. (For newer or seasonal businesses, a shorter, more recent period is used to calculate the loan amount.) Payroll costs include payments and benefits paid to employees, but any employee salary above an annual amount of \$100,000 must be excluded.
 - Note: The text of the CARES Act suggests that small businesses can count payments to sole proprietors and independent contractors as payroll costs. The SBA, however, has interpreted the statute to mean that such payments *cannot* be included in calculating payroll costs.
- For self-employed individuals, the loan amount is based on net profit as shown on the applicant's Form 1040 Schedule C for 2019, as supported by other documentation, such as a Form 1099-MISC. (If the applicant hasn't yet filed a 2019 Schedule C, one needs to be completed for purposes of applying for the loan.) The amount of net profit that can be included in the loan calculation is capped at \$100,000 per year. Sole proprietors with employees can also include their employee payroll costs, but any individual employee's salary amount cannot exceed \$100,000 per year. The average monthly net profit (plus average monthly payroll cost for those with employees) is multiplied by 2.5, to which the applicant can add the outstanding amount of any COVID-related EIDL to be refinanced.
 - Note: The SBA has issued detailed guidance concerning the way in which the loan amount is to be calculated for self-employed individuals. For more specific information, please consult <https://home.treasury.gov/system/files/136/Interim-Final-Rule-Additional-Eligibility-Criteria-and-Requirements-for-Certain-Pledges-of-Loans.pdf>.

- ***What else should I know about lending requirements for these loans?***

The CARES Act waives any requirement of collateral or a personal guarantee for a PPP loan. It also waives the requirement that applicants demonstrate they are unable to obtain a loan elsewhere. A PPP loan applicant must certify that the loan

- Is necessary to support ongoing operations in light of economic uncertainty
- Will be used for to retain workers and maintain payroll and/or for mortgage, lease, or utility payments, and
- Is not duplicative of another PPP loan.

- ***Are there restrictions on the use of the loan proceeds?***

Yes. PPP loan proceeds must be used to cover

- Payroll costs and/or compensation to self-employed individuals
- Employer-provided group health insurance and other employee benefits
- Interest payments on mortgages and other debts, and
- Rent and/or utility costs.

➤ Note: In the case of self-employed individuals, the SBA has imposed the additional limitation that the use must be one for which the borrower made expenditures in 2019.

- ***What portion of the loan is eligible for forgiveness, and what are the requirements?***

PPP loans are eligible for forgiveness to the extent the loan proceeds are used during the 8-week period after loan funds are received for

- Payroll costs and/or compensation for self-employed individuals (limited to 8 weeks of net profit)
- Interest on a mortgage incurred before February 15, 2020
- Rent payments on a lease in effect before February 15, 2020, and
- Utility payments for services that began before February 15, 2020.

But with the following qualifications:

- The amount of forgiveness cannot exceed the principal of the loan, and
- The amount of forgiveness will be reduced
 - In proportion to the number of employees laid off during the 8-week period after the loan is obtained as compared to the borrower's previous employment level, and
 - To the extent the salary of any employee earning \$100,000 or less is reduced by more than 25%.

- Note: Although the CARES Act doesn't specify how forgiveness is apportioned between payroll costs and other forgivable costs, the SBA has issued a rule specifying that at least 75% of the forgiven amount must be payroll costs, and no more than 25% can be non-payroll costs.

- ***What is the interest rate and schedule for repayment?***

The interest rate is 1.0%. Payments are deferred for the first 6 months (but the interest is accruing). The period for repayment is 2 years, with no penalty for prepayment.

- ***If I get a PPP loan, can I also get an SBA Economic Injury Disaster Loan (EIDL)?***

Yes, you can apply for and obtain both so long as the funds are used for different allowable expenses.

- ***Where do I apply for a PPP loan?***

You need to apply through a bank or other participating financial institution. A partial list of banks that offer SBA loans can be found here:

<https://www.sba.gov/article/2020/mar/02/100-most-active-sba-7a-lenders>

The SBA also operates an online "Lender Match" service:

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp>