

NEWS ALERT

BUSINESS GROUP



Overview of the Economic Injury Disaster Loans

By Mark J. Tarallo & Sergio E. Marin | April 10, 2020

The Coronavirus Aid, Relief, and Economic Security (“CARES”) Act provides \$10 billion through the SBA’s Section 7(b) Economic Injury Disaster Loan (EIDL) program and expands eligibility standards as a response to the COVID-19 pandemic. The EIDL program will provide small businesses in declared disaster areas with loans of up to \$2 million to help overcome a temporary loss of revenue as a direct result of the COVID-19 pandemic.

Expanded Eligibility.

>The CARES Act expands eligibility for borrowers applying for an EIDL grant. In addition to current eligible small businesses and private nonprofit organizations (regardless of size), the following may also receive loans if economic injury has resulted from the COVID-19 pandemic:

- Businesses with 500 or fewer employees.
- Sole proprietorships, with or without employees.
- Independent contractors.
- Cooperatives with 500 or fewer employees.
- Employee Stock Ownership Plans (ESOPs) with not more than 500 employees.
- Tribal small business concerns.

>The covered period under the program is January 1, 2020 through December 31, 2020.

Key Terms.

>The EIDL program offers borrowers up to \$2 million of assistance in the form of an SBA loan.

>The term of the loan can be for up to 30 years.

>The interest rate is 3.75% for small businesses and 2.75% for non-profits.

>The following EIDL requirements are now waived under the CARES Act:

- The requirement of a personal guarantee on advances and loans below \$200,000.
- The requirement that the entity must be in business for a year. (Under the CARES Act, however, businesses must have been in operation on January 31, 2020 to participate in the EIDL program.)
- The requirement that the borrower is unable to obtain credit elsewhere.

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>The loans may be used to pay fixed debts, payroll costs, accounts payable and other operating costs that cannot be met because of the COVID-19 pandemic.

>There are certain restrictions on how the loan can be used.

- The loan proceeds are not intended to replace lost sales/profits.
- The loan proceeds cannot be used to refinance debt, make payments on other federal loans, pay tax obligations, repair physical damage or pay dividends to stockholders.

\$10,000 EIDL Grants.

>Borrowers may also request an advance of up to \$10,000, which will be distributed within 3 days after applying. When applying for the grant, the borrower must certify it is an eligible entity under SBA guidelines.

>The \$10,000 advance is not required to be repaid if borrower is subsequently denied a loan through the EIDL program.

>The \$10,000 advance may be used for any purpose already allowed under the program, including:

- Providing sick leave to employees unable to work due to COVID-19.
- Maintaining payroll.
- Supply chain costs.
- Mortgage/rent payments.
- Debts that could not be paid due to the loss of revenue.

Relationship with the Paycheck Protection Program (“PPP”).

>If a borrower has an EIDL unrelated to the COVID-19 pandemic, it may also apply for a PPP loan due to the COVID-19 pandemic.

>If a borrower has an EIDL loan related to the COVID-19 pandemic, a borrower may not receive a PPP loan to use for the same purpose.

- However, a borrower may use the PPP loan to refinance the existing EIDL loan. If a borrower received an EIDL loan related to the COVID-19 pandemic between January 31, 2020 and the date on which the PPP loan becomes available, the borrower may refinance the EIDL loan into the PPP loan for loan forgiveness purposes.

>If the borrower received a \$10,000 advance under the EIDL program, the lender will reduce that amount from the amount forgiven under the PPP.

Potential borrowers may visit the [SBA website](#) to begin applying online.

If you have any questions regarding the Economic Injury Disaster Loan program or how it might affect your business, please contact:

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