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# **Disaster Relief Loans: Impact of CARES Act on SBA Lending**

APRIL 9, 2020

3:00 - 4:00 PM



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Kieran O'Dea, CPA

Partner

H2R CPA

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Kieran O'Dea began his career with H2R CPA in 1998. Before rejoining the firm in 2016, Kieran spent 13 years with BDO USA LLC (formerly Alpern Rosenthal), where he served as a partner in the firm's Assurance and Transaction Advisory Services groups and was the former Co-Director of the firm's Manufacturing and Distribution Services niche. In Kieran's current role with H2R CPA, he serves as a partner in the firm's Accounting & Assurance Services group and is also responsible for business development.

Kieran has spent the majority of his 17 years in public accounting working with privately held and family-owned middle market manufacturing, distribution and service companies in the Pittsburgh area. Kieran has led audit engagements for local and national companies with annual sales ranging from \$10 million to in excess of \$200 million. He has assisted his clients plan for, conduct and implement internal control reviews, cost reduction and savings strategies, inventory process controls, and cost benefit analyses.

Additionally, Kieran has extensive experience consulting on buy-side and sell-side transactions including; add-on acquisitions, target company acquisitions, divestitures and mergers of equals.





Lucas Rihely, CPA

Partner

H2R CPA

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With over a decade of public accounting experience, Lucas Rihely focuses his practice on providing tax, audit, and consulting services for individuals, partnerships, corporations, and nonprofit organizations. He is a leader in our employee benefit plan practice area and is the firm's designated partner for our membership in the AICPA Employee Benefit Plan Audit Quality Center.

#### EDUCATION & LICENSES

Bachelor's Degree in Accounting – Robert Morris University

#### PROFESSIONAL & COMMUNITY INVOLVEMENT

American Institute of Certified Public Accountants (AICPA)

Pennsylvania Institute of Certified Public Accountants (PICPA)

Association of Certified Fraud Examiners (ACFE)

Board Member and Finance Committee Member – BCRC, Inc. (Beaver County Rehabilitation Center)

Former Treasurer – Big Brothers Big Sisters of Beaver County

Volunteer – various youth sports organizations



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Jaqueline M. Woodstock

SBA Specialist

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Jackie is a seasoned Banking professional and Senior SBA Specialist for Citizens Bank covering several regions, including Pittsburgh, Michigan and Ohio. She works with small business owners who are experiencing difficulty with obtaining access to capital or would like a non-traditional approach to their financial needs. She works to develop financial solutions for businesses with regard to business acquisitions, financial growth and restructuring. She strives to deliver a personal relationship experience with each client and excels at delivering a unique financial formula for success while being your advocate at Citizens Bank.

Jackie has been in banking since 1994, when she started her career working in the SBA department at a regional bank. Previous positions include several different roles including establishing and launching the SBA department at a mid-size bank in Michigan. She has a bachelor's degree in Finance and Management from Walsh College in Troy, MI. She is also proud to be an executive on the board of directors at Great Lakes Women's Business Council and on the committee for the lending division at GLWBC.



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Heather Thomas  
VP, SBA Business Development  
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Heather is originally from the Pittsburgh area and as an SBA Lender her passion is getting business owners access to capital to help them achieve their aspirations. She began in the banking industry in 2006 and utilize that experience when handling transactions in areas such as owner-occupied real estate acquisition, expansion lending for growth firms, debt refinance and business acquisition.

Heather has honed her expertise to help those that she works with get the most from the programs available to them. At the same time, she aims to tailor the financing to the specific needs and preferences of the ownership team and enterprise. She is passionate about helping a city that she loves and seeing growth and expansion through the businesses and entrepreneurs that thrive here.

Heather is a graduate of Indiana University of Pennsylvania and hold a BS in Finance. She currently serve on the Board of the Jean B. Purvis Community Health Center and Rivers of Steel. She is proud to serve on the RDFC's Loan Committee



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As a Senior SBA Product Specialist for Huntington in the Greater Pittsburgh Region, Lindsay works closely with entrepreneurs and business owners to craft financing solutions for business acquisition financing, balance sheet restructuring and company growth. She is committed to delivering a customized, relationship-centered approach to each client's situation and delivering thoughtful and creative financing solutions.

Since 2004, Lindsay has been in the financial industry in positions such as senior commercial lender and a government guaranteed lender supporting the capital needs of small and growth firms. She has a bachelor's degree in Economics and History from New York University in New York, graduating Magna Cum Laude, and a master's degree in History from Carnegie Mellon University in Pittsburgh.

Recognized as an "Emerging Leader" by the Financial Services Workforce Initiative of Duquesne University's Donahue Graduate School of Business, she is active in the community, serving as a youth instructor for the AWANA International Youth Ministry, a bible schoolteacher and regularly volunteering as an instructor for Junior Achievement of Western Pennsylvania. I am a proud alumna of Leadership Pittsburgh's Leadership Development Initiative Class of XXV.





## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – How did we get here?

- March 27, 2020 – President Trump signs CARES Act
- March 31, 2020 – Payroll Protection Loan applications made available by Treasury (subsequently changed 3 times). Treasury states applications will start being accepted April 3, 2020. Throughout the week many financial institutions alert customers; they will not be ready “go-live” by April 3, 2020.
- April 2, 2020 – SBA issues 35-page *Interim Final Rule* late in the evening, provides some clarification, but many questions remain. New application issued by the SBA.



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – How did we get here? (cont'd)

- April 3, 2020 – Banks may begin accepting applications, but most banks are not ready.
  - ✓ April 3 - 6, 2020 – A number of banks scramble to get their online platforms working – ensuing delays and website crashes. Many banks have different processes and do not require the same information to complete the application. Widespread confusion about what “is” and “is not” to be included in “Payroll Costs.”
- April 6, 2020 – Late in the evening of April 6, the SBA issues 6-page *Payroll Protection Program Loans Frequently Asked Questions*. Many questions answered, but applications for the program have already been submitted.



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – Where are we now?

- April 7 - 8, 2020 – With the new simplified guidance issued in the SBA's FAQs, companies scramble to ensure they had the correct calculation of monthly payroll costs:
  - ✓ Total Cash wages and other compensation
  - ✓ Deduct compensation over \$100k per employee
  - ✓ Total medical benefits
  - ✓ Total retirement plan contributions paid by the company
  - ✓ State and Local taxes imposed on employees' wages (State UC)
  - ✓ Self Employed Earnings up to \$100k
  - ✓ This can be done for the year 2019 and then divided by 12 to get average monthly payroll



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program - Where are we now? (cont'd)

- As of April 9, 2020
  - ✓ FAQs allow for changes on applications in process, but not requiring changes if you followed guidance available at the time. Be careful of any changes that might slow the application process.
  - ✓ Many companies have applied, but limited number of companies receiving “acceptance” acknowledgements yet and none have seen funding. There is still confusion on providing backup support and what the underwriting process is for each bank.



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – Where are we now? (cont'd)

- As of April 9, 2020 (cont'd)

- ✓ Banks are still scrambling to get loans processed and determine what supporting documentation is needed. Stay in touch with your bank and have the following documents ready, each process is different, but the major documentation will include items such as:
  - Annual wage statements for 2019, monthly if available, just in case. Payroll tax records supporting annual wages. Quarterly 941's, 940 and W-3
  - Deduction amounts for salary greater than \$100k per employee
  - Copies of all health insurance benefits invoices paid
  - Copies of support for all Company retirement benefit payments
  - State Unemployment tax returns (PA UC)
  - For self employment earnings, 1099's, Form 1040 schedule C income statement, passthrough K-1, or other relevant documentation.



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## *Impact of CARES Act on SBA Lending (cont'd)*

### Paycheck Protection Program – Where are we now? (cont'd)

- As of April 9, 2020 (cont'd)
  - ✓ It's not clear if you will need all of this support at the time of underwriting (bank by bank process), but you will need these documents and additional documents to support the amount of the loan that will be forgiven.



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – Where do we go next?

- Stay in touch with your bank during the application process, gather the documentation that will be needed. Be ready to provide answers and supporting documentation quickly. Time is of the essence.
- Forgiveness. As stated in the original guidance, these loans can be all or partly forgiven, if used for allowable expenses such as: Salary, Wages and Benefits, Rent, Mortgage Interest, Utilities. There **are still many questions** around how forgiveness will be calculated. Everyone is hopeful that the SBA will be issuing more guidance on this soon.



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## *Impact of CARES Act on SBA Lending*

### Paycheck Protection Program – Where do we go next?

- What should I do when I get the funds?
  - ✓ Consider opening a separate account for these funds, to better track expenditure.
  - ✓ Keep detailed records of all payments.
  - ✓ Don't use these funds to pay for items not included as allowable expenses.
  - ✓ Consult with your H2R CPA advisor as more guidance is being issued and to help you calculate the forgiveness.
- What if the funds run out, what's next? The funds will run out at some point soon, Congress is currently discussing measures to replenish the program, but how and when is anyone's guess.



# Paycheck Protection Program



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Prepared by the **U.S. CHAMBER OF COMMERCE**

# CORONAVIRUS EMERGENCY ANS Small Business Guide and Checklist



The Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated \$350 billion to help small businesses keep workers employed amid the pandemic and economic downturn. Known as the Paycheck Protection Program, the initiative provides 100% federally guaranteed loans to small businesses.

Importantly, these loans may be forgiven if borrowers maintain their payrolls during the crisis or restore their payrolls afterward.

The administration soon will release more details including the list of lenders offering loans under the program. In the meantime, the U.S. Chamber of Commerce has issued this guide to help small businesses and self-employed individuals prepare to file for a loan.

Here are the questions you may be asking—and what you need to know.

## 1

# Am I ELIGIBLE?

**You are eligible if you are:**

- A small business with fewer than 500 employees
- A small business that otherwise meets the SBA's size standard
- A 501(c)(3) with fewer than 500 employees
- An individual who operates as a sole proprietor
- An individual who operates as an independent contractor
- An individual who is self-employed who regularly carries on any trade or business
- A Tribal business concern that meets the SBA size standard
- A 501(c)(19) Veterans Organization that meets the SBA size standard

**In addition, some special rules may make you eligible:**

- If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- If you are operating as a franchise or receive financial assistance from an approved Small Business Investment Company the normal affiliation rules do not apply

**REMEMBER:** The 500-employee threshold includes all employees: full-time, part-time, and any other status.



## 2

## What will lenders be LOOKING FOR?

In evaluating eligibility, lenders are directed to consider whether the borrower was in operation before February 15, 2020 and had employees for whom they paid salaries and payroll taxes or paid independent contractors.

**Lenders will also ask you for a good faith certification that:**

1. The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations
2. The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments
3. Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here
4. From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here (Note: There is an opportunity to fold emergency loans made between Jan. 31, 2020 and the date this loan program becomes available into a new loan)

If you are an independent contractor, sole proprietor, or self-employed individual, lenders will also be looking for certain documents (final requirements will be announced by the government) such as payroll tax filings, Forms 1099-MISC, and income and expenses from the sole proprietorship.

## What lenders will NOT LOOK FOR

- That the borrower sought and was unable to obtain credit elsewhere.
- A personal guarantee is not required for the loan.
- No collateral is required for the loan.

# How much can I BORROW?

Loans can be up to 2.5 x the borrower's average monthly payroll costs, not to exceed **\$10 million**.

## How do I calculate my average monthly PAYROLL COSTS?



sum of  
**INCLUDED**  
payroll costs

—

sum of  
**EXCLUDED**  
payroll costs

=

**PAYROLL  
COSTS**

### **INCLUDED** Payroll Cost:

- 1. For Employers:** The sum of payments of any compensation with respect to employees that is a:
  - salary, wage, commission, or similar compensation;
  - payment of cash tip or equivalent;
  - payment for vacation, parental, family, medical, or sick leave
  - allowance for dismissal or separation
  - payment required for the provisions of group health care benefits, including insurance premiums
  - payment of any retirement benefit
  - payment of state or local tax assessed on the compensation of the employee
- 2. For Sole Proprietors, Independent Contractors, and Self-Employed Individuals:** The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

### **EXCLUDED** Payroll Cost:

1. Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020
2. Payroll taxes, railroad retirement taxes, and income taxes
3. Any compensation of an employee whose principal place of residence is outside of the United States
4. Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116–5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act



#### NON SEASONAL EMPLOYERS:

**Maximum loan =**

2.5 X Average total monthly payroll costs incurred during the year prior to the loan date

***For businesses not operational in 2019:***

2.5 X Average total monthly payroll costs incurred for January and February 2020

#### SEASONAL EMPLOYERS:

**Maximum loan =**

2.5 X Average total monthly payments for payroll costs for the 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019

## 4

# Will this loan be FORGIVEN?

Borrowers are eligible to have their loans forgiven.

## How Much?

A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Interest on the mortgage obligation incurred in the ordinary course of business
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
- For borrowers with tipped employees, additional wages paid to those employees

The loan forgiveness cannot exceed the principal.

## How could the forgiveness be reduced?

The amount of loan forgiveness calculated above is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees. Specifically:

### Reduction based on reduction of number of employees



**PAYROLL  
COST**  
Calculated  
on page 2

**X**

Average Number of  
Full-Time Equivalent  
Employees (FTEs)  
Per Month for the  
8-Weeks Beginning  
on Loan Origination

**÷**

#### Option 1:

Average number of FTEs per month from  
February 15, 2019 to June 30, 2019

#### Option 2:

Average number of FTEs per month from  
January 1, 2020 to February 29, 2020

#### For Seasonal Employers:

Average number of FTEs per month from  
February 15, 2019 to June 30, 2019

### Reduction based on reduction in salaries



**PAYROLL  
COST**  
Calculated  
on page 2

**—**

For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than \$100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter.

## What if I bring back employees or restore wages?

Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (as compared to February 15, 2020) shall not reduce the amount of loan forgiveness **IF** by June 30, 2020 the borrower eliminates the reduction in employees or reduction in wages.

# WHAT'S NEXT?

Look out for more information about eligible lenders and additional guidance from the SBA soon.

For more guidance and resources for small businesses, visit [uschamber.com/co](https://uschamber.com/co)

# Small Business Relief Loans: Which Loan is Right for Me?



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## COVID-19 SMALL BUSINESS RELIEF LOANS

# Which loan is right for me?

### PAYCHECK PROTECTION LOAN (PPL)

**Purpose:** Emergency working capital to keep your business operating during COVID-19

**Use of Funds:** Payroll costs, rent, interest payments, and utilities; at least 75% of loan funds must be used for payroll costs

**Amount:** Up to \$10MM or 2.5x business's average monthly payroll, whichever is less

**Rate:** Fixed interest rate of 1.00%

**Structure:** 2 year term; no payments for six months, interest will accrue during this period

**Forgiveness:** Up to 100% of eligible expenses paid with loan funds during the 8 weeks following closing, subject to compliance with program requirements

**Features:** No collateral or guarantor support required

**For Funds Deposited:** Name of the business applicant must match name of the Huntington Business Checking account in which the funds are being deposited

**How to Apply:** Contact your Business Banker, call (888) 845-7556, or visit us at [huntington.com/coronavirus/business-resources](https://huntington.com/coronavirus/business-resources)

### ECONOMIC INJURY DISASTER LOANS (EIDL)

**Purpose:** To supplement lost revenue on account of COVID-19

**Use of Funds:** Payroll expenses, fixed debts, accounts payable, other expenses

**Amount:** Up to \$2MM

**Rate:** 3.75% or 2.75% for non-profits

**Structure:** Up to 30 years

**Forgiveness:** None

**Features:** Guarantor support and any available collateral required

**How to Apply:** Visit [sba.gov/disaster](https://sba.gov/disaster)

### SBA TRADITIONAL 7(a)

**Purpose:** New money for recovery, purposes unrelated to COVID-19

**Use of Funds:** Refinance of current debts, purchase and refinance of real estate, new money for purchases of equipment or software, working capital, business acquisitions, business improvements, support for startups that don't qualify for disaster assistance

**Amount:** Up to \$5MM

**Rate:** SBA market rates

**Structure:** Up to 25 years

**Forgiveness:** None

**Features:** Guarantor support and any available collateral required

**How to Apply:** Contact your Business Banker, call (888) 845-7556, or visit us at [huntington.com/coronavirus/business-resources](https://huntington.com/coronavirus/business-resources)

Loans subject to credit application and approval.

‡ All SBA loans subject to eligibility, program requirements and program availability. Huntington is the #1 SBA 7(a) lender in the region made up of Illinois, Indiana, Kentucky, Ohio, Michigan, West Virginia, Western Pennsylvania and Wisconsin from October 1, 2008 to September 30, 2019.

Source: U.S. Small Business Administration (SBA)

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# Best Practices

At Huntington, we are dedicated to making communities stronger by supporting local business owners through even the most difficult of times. As the largest SBA lender in our region for the last 10 years, we are committed to providing resources and funding to the closely held businesses that are so vital to our community. The information shared here is not necessary comprehensive, but meant to give you a starting point from which to work.

Our approach is simple: Understand your business goals, then provide financial solutions that will support your success.

**Stay current on the COVID – 19 response  
at Huntington Bank:**

**<https://www.huntington.com/coronavirus>**

# Other Support Options

- SBA Clients
  - 6-months of payments made by the SBA
    - Existing clients and closings through 9/27/20
- Reach out to your bank and let them know if you are struggling
  - Adjust deposit and treasury options as necessary
- General Options Available
  - Payment relief options on loans may be offered/deferrals
  - Suspension of Late Fees on Business Loans (05/20)
  - Credit Card Late Fee Assistance (05/20)
  - Your changed and evolving Working Capital needs

# SBA 7(a) Lending Basics

The Small Business Administration (SBA) is a government-guaranteed loan program. While the loan is booked with Huntington, the SBA guarantees up to 75% of the loan. As a preferred SBA lender, Huntington can expedite decisions on loan requests. The SBAguaranty is used to mitigate risk, not make risky loans.

## **SBA Financing Allows Your Business To:**

- Improve cash flow with extended loan terms
- Protect equity by reducing your down payment
- Acquire or start a new business by assisting with collateral shortfalls
- Grow faster with projection based lending
- Borrow over \$5 million in guaranteed funds
- No financial covenants – just reporting requirements
- View the entire project for financing - including all soft costs and permanent working capital

# Debt Restructure Highlights

- **Debt Consolidation or Refinance:**
  - The SBA issues a term/amortization based upon the “USE of FUNDS”
  - SBA requires a 10% improvement for each individual AND must be on unreasonable terms (as defined by the SBA)
    - ❖ Refinance of equipment and real estate can have a blended term. The loan would allocate 25 years to CRE and 10 years to equipment. If the allocation was \$1MM CRE and equipment, it would carry an 18 year term.
    - ❖ Refinancing SBA loan with an SBA loan is possible - this is a rare occurrence:
      - ✓ letter from existing bank
      - ✓ demonstrate advantage for the client (same as above)
      - ✓ Credit must go to SBA for final approval (GP)

# Questions / Discussion

THANK YOU



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