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## What the SBA Loan Program might mean for you and your school!

### Executive Summary

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act is a \$2 trillion stimulus package with significant implications across financial services and nearly all other aspects of the economy.
- The CARES Act provides \$349 billion for section 1102 and \$10 billion for section 1110 to assist small businesses through the Small Business Administration.
- Loans will be available through the Small Business Administration, and Department of Treasury approved banks, credit unions, and some nonbank lenders. Please contact your lender.
- For additional information from SBA on guidance and loan resources, click [here](#).

On March 27, 2020, President Trump sign into law [H.R. 748](#) (the Coronavirus Aid, Relief, and Economic Security Act or the "CARES Act"). This is the largest economic bill in U.S. history, providing economic relief to businesses, states, municipalities, and individuals affected by COVID-19. Although the scope of the CARES Act is wide-ranging, this summary is limited to providing CECU members with a high-level overview of the relief available for qualifying business concerns (generally small businesses with certain limited exceptions). CECU will publish additional information as the Small Business Administration (SBA) issues implementing regulations in the coming days and weeks.

### Small Business Loans Under Paycheck Protection Program (Section 1102 of H.R. 748):

Section 1102 creates an emergency loan program that will be administered by SBA under its 7(a) loan-guarantee program. Eligible nonprofits and small businesses will be able to use the loan to cover the costs of payroll support (including employee salaries, paid sick or medical leave, insurance premiums), mortgage interest expenses, rent expenses, and utility payments (collectively, "business continuity expenses") incurred from February 15, 2020 through June 30, 2020.

### Eligible entities:

Employers, including self-employed, independent contractors, and sole proprietors, with 500 or fewer employees, are eligible for loans under the Paycheck Protection Program. Other qualifying entities eligible to participate in the Paycheck Protection Program are nonprofit organizations, veteran's organization, religious organizations, or Tribal business.

### Loan amount:

The amount that may be borrowed under the Paycheck Protection Program is generally equal to the lesser of 2.5 times the average monthly payroll expenses for the 12-week period beginning February 15, 2020, or at the election of the borrower, 2.5 times the average monthly payroll expenses for the period from March 1, 2020 and ending June 30, 2020.

### Payroll costs include the sum of:

1. Salary, wage, commission, or similar compensation;
2. Payment of cash tip or equivalent;
3. Payment for vacation, parental, family, medical, or sick leave;
4. Allowance for dismissal or separation;
5. Payment required for the provisions of group health care benefits, including insurance premiums;
6. Payment of any retirement benefit; or
7. Payment of state or local tax assessed on the compensation of employees.

**Payroll cost does not include:**

1. The compensation of an individual employee over an annual salary of \$100,000, as prorated for the "covered period" (March 1, 2020 to June 30, 2020);
2. Taxes imposed or withheld under Chapters 21, 22, or 24, of the Internal Revenue Code during the covered period;
3. Any compensation of an employee whose principal place of business 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 (Pub. L. No. 116-127); or
5. Qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act (Pub. L. No. 116-127).

**Loan Use:**

The entity may use loans obtained via the Paycheck Protection Program to pay payroll (as defined above); costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; employee salaries, commissions, or similar compensations; payments of interest on any mortgage obligation (which does not include any prepayment of or payment of principal on a mortgage obligation); rent (including rent under a lease agreement); utilities; and, interest on any other debt obligations that were incurred before the covered period.

**Loan Repayment/Forgiveness:**

Entities that use the Paycheck Protection Program loans for the purposes listed above, the principal balance is eligible for loan forgiveness. To apply for a Payment Protection Program loan forgiveness, employers will need to submit the following documentation to the lender: 1) documentation verifying the number of full-time equivalent employees on the payroll and pay rates for the period between January 1, 2020, to June 30, 2020; 2) documentation confirming rent, utilities or mortgage interest payments amounts; 3) certification from the employer confirming the truth of the documentation; and, 4) any other documentation requested by SBA.

**Loan Forgiveness (Section 1106 of H.R. 748)**

Entities eligible for loan forgiveness under section 1106 are eligible up to 100 percent of a covered loan under the Paycheck Protection Program for the costs incurred and payments made by the entity during an eight-week covered period after the loan origination date. The cost incurred is:

1. Payroll costs (as defined above and in section 1102);
2. Interest on any real or personal property mortgage incurred before February 15, 2020;
3. Rent on any lease in force before February 15, 2020; and
4. Utility payments for electricity, gas, water, transportation, telephone, or internet access for which service started before February 15, 2020.

Section 1106 will consider loan amounts made under the Paycheck Protection Program forgiven as canceled indebtedness under section 7(a) of the Small Business Act. The loan will also not be included in the gross taxable income of the entity. The SBA will send the forgiven loan amount plus accrued interest to the lender within 90-days of the date of the loan forgiveness.

To encourage employers to rehire employees who have been laid off due to COVID-19, the loan forgiveness amount will be determined without any regard to a reduction in the number of full-time employees or a reduction in employee salaries from February 15, 2020 to April 26, 2020, if the reduction in full-time employee salaries has been eliminated by June 30, 2020. As stated above, the borrower seeking loan forgiveness by the SBA **must** submit documentation to their respective lender proving the Paycheck Protection loan was used in accordance with section 1102.

Any covered loans not forgiven remain outstanding under their existing term under section 1102. Section 1114 requires the Small Business Administration Administrator to issue regulations 15 days after the enactment of H.R. 748.

### **Economic Injury Disaster Loans (Section 1110 of H.R. 748):**

Section 1110 expands the eligibility of SBA's Economic Injury Disaster Loan (EIDL) program. EIDL is working capital loans to help small businesses and most private, nonprofit organizations of all sizes to fulfill ordinary and necessary financial obligations that cannot be met as a direct result of a disaster. EIDL's eligibility is expanded for entities suffering economic hardships due to COVID-19.

The expansion provides SBA greater flexibility authority to process and disburse loan advances to businesses, cooperative, any individual who operates a sole proprietorship (with or without employees, or as an independent contractor), employee stock ownership, and tribal small business with fewer than 500.

Section 1110 allows for entities applying for EIDL grants to have access to capital through an emergency grant (an advance of \$10,000 available within 3-days of their application) to maintain payroll, provide paid sick leave, and to service other debt obligations.

### **Eligibility:**

Any business is eligible to receive an EIDL grant based solely on an applicant's credit score or an alternative method to measure the applicant's ability to repay. The entity does not have to refund any advance payments if the applicant is denied an EIDL.



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