

## **\$349 Billion Forgivable Small Business Loan Program**

- Congress has just enacted the largest financial relief package in United States history for American small businesses and sole proprietorships, the Paycheck Protection Program.
- Small businesses with fewer than 500 employees (hotels and restaurants with multiple locations may be able to have a higher number of employees) will be permitted to borrow up to 250% of their average monthly payroll costs. Each of these loans is capped at \$10 million. Loan proceeds can cover payroll costs, including health insurance costs, retirement contributions, covered leave costs, as well as interest on mortgage payments, interest on other debt obligations incurred prior to February 15, 2020, rent, and utilities.
- The interest rate cannot exceed 4%.
- The Paycheck Protection loans will not require the borrowers to provide guarantees or collateral and are non-recourse.
- No repayment will be required for at least 6 months from the date of the loan and can possibly be deferred for one year. There is no prepayment penalty.
- If the small business maintains certain employment levels, the SBA will forgive the lion's share of the small business' loan. The amount of forgiveness will be based on the total of the small business' payments, during the first eight weeks of the loan, for any payments which cover the following costs: payroll, interest on mortgages, rent and utilities. The forgiveness, however, will be reduced proportionately by the extent that employees were terminated or salaries reduced. The forgiveness can be sought after the initial eight-week period, commencing with the making of the loan.
- The maximum maturity on Paycheck Protection loans (to the extent not forgiven) will be ten years.
- The SBA Paycheck Protection loans will be made by approved lenders, both SBA-approved bank lenders and SBA-approved nonbank lenders. The legislation provides that the SBA Administrator and the Secretary of the Treasury may approve additional lenders to make and service these loans. Our expectation is that they will take a broad view of which lenders are approved to make the loans.
- For purposes of bank capitalization, Paycheck Protection loans will be risk-weighted at zero.
- Lenders making and servicing these loans will receive a fee of 5% on loans made under \$350,000; 3% for loans between \$350,000 and \$2 million; and 1% for loans over \$2 million.
- On March 23, the Federal Reserve announced that it would soon establish a Main Street Business Lending Program to support lending to eligible small-and-medium sized businesses, which would complement efforts by the SBA. The details of this program are being developed; presumably, the Federal Reserve will rely on banks to assist in this program.