How the New Paycheck Protection Loans Are Different Than Traditional 7(a) SBA Loans

Cash Flow

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The $350 billion lending program authorized by the latest stimulus package aims to expand the access and availability of loans to struggling small businesses. And the terms are now very different.


By Brit Morse Web producer, Inc.com @britnmorse


Jim Watson/AFP via Getty Images

President Trump on March 27 signed a $2 trillion coronavirus stimulus package and with it unleashed a $350 billion paycheck protection program (PPP) aimed at helping U.S. small businesses, which have faced devastating losses in the wake of the coronavirus pandemic.

While this specific law, dubbed the CARES Act, calls on the Small Business Administration to back ever more loans through its existing channels--mainly through its flagship 7(a) loan program, which offers loans to eligible small businesses--it does present some changes to the former framework. That comes on top of the changes authorized under the previous stimulus law passed on March 6, dubbed the Coronavirus Preparedness and Response Supplemental Appropriations Act. That measure expands the criteria for qualifying for loans, granted under the SBA's Economic Injury Disaster

Loan Program, or EIDLP.

Collectively, the measures widen the pool of eligible businesses and provide additional assistance to companies struggling to maintain operations and keep employees on the payroll. The question of which businesses benefit from the new laws and how they change the existing framework was the subject of the National Small Business Town Hall, a webinar hosted on March 27 by *Inc.* and the U.S. Chamber of Commerce.

While the actual details on how to apply for the newly enhanced loans are unclear--the SBA is expected to release guidance on this soon--the parameters of the loan changes have been revealed. Here's a look at how the stimulus packages are changing the SBA's small-business loan programs:

Paycheck Protection Program:

- Temporarily raises the maximum loan amount from $5 million to $10 million during the "covered period," from February 15, 2020, through June 30, 2020. The maximum value of a company's loan will be equal to the lesser of $10 million or the sum of 2.5 times the average monthly payroll cost in 2019. This includes wages for employees as well as expenses for paid sick leave, health care, and other benefits.
- Temporarily guarantees 100 percent of the loans, regardless of size. Traditionally, loans up to $150,000 were 85 percent backed by the SBA. Loans greater than $150,000 were 75 percent backed.
- Temporarily confers eligibility to businesses--even sole proprietorships and independent contractors--with 500 or fewer employees, regardless of whether a business qualifies as "small" under the SBA's size standards. Traditionally, the SBA uses a web of revenue standards to determine whether a company qualifies.
- The maximum interest rate for these loans is now capped at 4 percent. Loan terms are still negotiated between borrowers and lenders and are a product of the prime rate, plus the LIBOR rate. However, rates may not exceed that limit. Previously, fixed rate loans were capped at 6 percent.
- Waives the requirement that businesses show they can't obtain credit elsewhere. The inability to secure credit was formerly a requirement.
- Waives annual or guarantee fees for the loan and all prepayment penalties. The SBA formerly levied fees of around 2 to 3.75 percent of the guaranteed portion of a loan.

- The SBA reportedly plans to have a process in place by end of next week, where the loans can be made and disbursed in the same day, according to *The Wall Street Journal*. Previously, the SBA said it takes around five to 10 business days.
- Businesses won't need to provide a personal guarantee or collateral. Traditionally, lenders don't require collateral for loans up to $25,000. For loans in excess of $350,000, the SBA traditionally requires that the lender collateralize the loan to the maximum extent possible up to the loan amount--and that may include requiring a person secure his or her loan with personal assets.
- Expands the permitted use of funds to include payroll support, paid sick leave, mortgage payments, rent payments, and servicing existing debt. Previously, these items weren't expressly eligible for coverage.

Loan Forgiveness:

- Loans may be fully or partially forgiven. Any portion of the loan used to make payroll, pay for utilities, rent, mortgage, and existing business debt may be forgiven, dollar for dollar. To receive this dollar-for-dollar loan forgiveness, however, workers need to remain employed through the end of June. Traditionally, 7(a) loans must be repaid in full, depending on the repayment terms.
- In the case of reduced headcount, lenders may reduce the amount of forgiveness for businesses that lay off employees during the first eight weeks following the loan. If wages of employees who earn less than $100,000 a year are reduced, the level of forgiveness may also get reduced.
- Businesses that have let employees go before accepting the loan will not be subject to penalties. If those businesses rehire employees after accepting the loan, they'll receive additional credit to cover wages.

Debt Relief:

- Existing borrowers can defer payments of principal, interest, and fees for up to six months, but not more than one year.

Change to SBA Express Loans:

- The loan maximum has been increased from $350,000 to $1 million.

Changes to Economic Injury Disaster Loans (EIDL):

- Companies statewide may apply; previously, only companies located within a certain county could apply once that county had received specific disaster declaration.
- Traditionally EIDL loans would require a personal lien such as on a home. In this case, personal guarantees have been modified and sometimes eliminated.
- Small businesses have the opportunity for an immediate advance of $10,000, which, according to the SBA, will be given within three days of a request.
- The loan doesn't have to be repaid if it's used for payroll, even if you get denied for the EIDL loan later on.

Published on: Mar 29, 2020

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