

Economic Injury Disaster Loans

On March 19th, the U.S. Small Business Administration (SBA) approved Illinois' application for an economic injury declaration due to the coronavirus. Now small businesses throughout the state of Illinois are eligible to apply for Economic Injury Disaster Loans (EIDL). These loans are provided directly from the SBA, not traditional lenders.

EIDL Application Form Guidance:

- Application registration is available at: <https://disasterloan.sba.gov/ela/>
- Sole proprietors should use [SBA form 5C](#), while all other small businesses should use [SBA form 5](#)
- In addition to the application form, be prepared to submit:
 - Tax Information Authorization ([IRS Form 4506T](#)) for the applicant, principals and affiliates
 - Complete copies of the most recent Federal income tax returns for the applicant business
 - Signed Personal Financial Statement ([SBA Form 413](#))
 - Schedule of Liabilities listing all fixed debts ([SBA Form 2202](#))

EIDL Loan Terms:

- EIDL's offer up to \$2 million in assistance per small business.
- EIDL's may be used to pay fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact.
- The interest rate is 3.75% for small businesses and 2.75% for non-profits that do not have credit available elsewhere; businesses with credit available elsewhere are not eligible.
- SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay.

EIDL Qualifications:

- Credit History-Applicants must have a credit history acceptable to the SBA.
- Repayment –SBA must determine that the applicant business can repay the SBA loan.
- Eligibility-The applicant business must be physically located in a declared area and suffered working capital losses due to the declared disaster, not due to a downturn in the economy or other reasons.
- Economic Injury Disaster Loans over \$25,000 require collateral and the SBA takes real estate as collateral when it is available. However, the SBA will not decline a loan for lack of collateral, but instead requires borrowers to pledge what is available.

EIDL FAQ's:

- **If a borrower owns multiple companies, do they need to fill out multiple applications, one for each company?** Each separate company, with its own separate tax ID number, must have its own application.
- **Who is the applicant – the owner of the company or the company?** The company is the applicant.
- **If a business owner has a poor personal credit score, are they still eligible for the loan?** The SBA reviews the entire credit history - the focus is more on the borrower's ability to repay the loan.
- **How long will it take for a decision on a loan application?** The SBA has set a timeline of up to 21 days currently.
- **Can a borrower have multiple SBA loans, including other SBA disaster loans, and still be eligible for EIDL COVID-19 relief?** Yes
- **Can a strictly e-commerce business be eligible for EIDL COVID-19 relief?** Yes, if there is a clear demonstration of loss in operating capital directly connected to coronavirus impact.
- **Are start-ups eligible for EIDL COVID-19 relief?** It depends. The SBA will evaluate when the business was started. If the business was operating before the COVID-19 pandemic and the borrower can demonstrate revenue was negatively impacted by COVID-19, they may be eligible for the loan.
- Additional information can be found on the [SBA COVID-19 EIDL Application Presentation](#).

Coronavirus Aid, Relief, and Economic Security (CARES) Act Impact on SBA 504, 7(a) and Community Advantage LoansSection 112 –Subsidies for SBA 504, 7(a) and Community Advantage Loans

** Note that while the law does not require lenders to provide current borrowers with deferments, it is encouraged by the SBA at the direction of Congress.**

The CARES Act requires the SBA to pay the principal, interest, and any associated fees that are owed on:

- Covered loans, not in deferment, that were made prior to the enactment of this bill - for 6 months, beginning with the next payment due on the covered loan
- Covered loans made before the date of enactment of this Act (March 27th) and on deferment, for 6 months, beginning with the next payment due on the covered loan after the deferment period
- Covered loan made on/within 6 months beyond March 27th for 6 months beginning with the first payment due on the covered loan

The SBA must make payments no later than 30 days after the date on which the first payment is due. The actual mechanism for the SBA to make these payments is to be determined but, the final process will be structured so the payment is applied to the covered loan such that the borrower is relieved of the obligation to pay that amount. Recognizing the pending payment mechanism, the law directs the SBA to work with financial regulatory bodies to “encourage those entities to not require lenders to increase their reserves on account of receiving payments made by the Administrator” and other challenges presented by restrictions of COVID-19.

The SBA also must make payments even if the loan was sold on the secondary market. Additionally, the law allows lenders, up until one year after enactment, to extend the maturity of SBA loans in deferment beyond existing statutory limits.

Section 1102 - Paycheck Protection Program (PPP)

The CARES act Makes temporary changes to the SBA 7(a) loan program by providing 100% loan guarantees for SBA-administered loans of up to \$10 million per small business, for selected working capital costs. These loans are to be administered by current 7(a) lenders. The SBA/Department of Treasury has the authority to designate additional lenders to process, close, disburse and service the PPP loans.

PPP Loan Details:

- Defines the covered loan period as beginning on February 15, 2020 and ending on **June 30, 2020**.
- Defines eligibility for loans as a small business, 501(c)(3) nonprofit, a 501(c)(19) veteran’s organization, or Tribal business concern described in section 31(b)(2)(C) of the Small Business Act with not more than 500 employees.
- Includes sole-proprietors, independent contractors, and other self-employed individuals as eligible for loans.
- Specifies allowable uses of the loan include payroll support, such as employee salaries, paid sick or medical leave, insurance premiums, and mortgage, rent, and utility payments.
- Waives affiliation rules for businesses in the hospitality and restaurant industries, franchises that are approved on the SBA’s Franchise Directory, and small businesses that receive financing through the Small Business Investment Company (SBIC) program.
- For eligibility purposes, requires lenders to, instead of determining repayment ability, which is not possible during this crisis, to determine whether a business was operational on February 15, 2020, and had employees for whom it paid salaries and payroll taxes, or a paid independent contractor.
- Provides delegated authority, which is the ability for lenders to make determinations on borrower eligibility and creditworthiness without going through all of SBA’s channels, to all current 7(a) lenders who make these loans to small businesses, and provides that same authority to lenders who join the program and make these loans.

- Waives both borrower and lender fees for participation in the Paycheck Protection Program.
- Waives the credit elsewhere test for funds provided under this program.
- Waives collateral and personal guarantee requirements under this program.
- Outlines the treatment of any portion of a loan that is not used for forgiveness purposes. The remaining loan balance will have a maturity of not more than 10 years, and the guarantee for that portion of the loan will remain intact.
- Sets a maximum interest rate of four percent.
- Ensures borrowers are not charged any prepayment fees.
- Provides a limitation on a borrower from receiving this assistance and an economic injury disaster loan through SBA for the same purpose. However, it allows a borrower who has an EIDL loan unrelated to COVID-19 to apply for a PPP loan, with an option to refinance that loan into the PPP loan. The emergency EIDL grant award of up to \$10,000 would be subtracted from the amount forgiven under the Paycheck Protection Program.

Additional 7(a) Changes in the CARES Act:

- Establishes the maximum 7(a) loan amount to \$10 million through December 31, 2020 and provides a formula by which the loan amount is tied to payroll costs incurred by the business to determine the size of the loan.
- Increases the government guarantee of 7(a) loans to 100 percent through December 31, 2020, at which point guarantee percentages will return to 75 percent for loans exceeding \$150,000 and 85 percent for loans equal to or less than \$150,000.
- Allows complete deferment of 7(a) loan payments for at least six months and not more than a year and requires the SBA to disseminate guidance to lenders on this deferment process within 30 days.
- Provides the regulatory capital risk weight of loans made under this program, and temporary relief from troubled debt restructuring (TDR) disclosures for loans that are deferred under this program.
- Requires the Administrator to provide a lender with a process fee for servicing the loan. Sets lender compensation fees at five percent for loans of not more than \$350,000; three percent for loans of more than \$350,000 and less than \$2,000,000; and one percent for loans of not less than \$2,000,000.

Additional State & Municipal Resources

[Illinois Treasurer Business Invest – Illinois Small Business COVID-19 Relief Program \(Illinois\)](#)

An impact investment loan program under which the State Treasurer would make up to \$250 million in deposits available to financial institutions throughout the state, at near-zero rates, to assist Illinois small business and non-profits negatively affected by the COVID-19 pandemic.

[Hospitality Emergency Grant Program \(Illinois\)](#)

the Illinois Department of Commerce & Economic Opportunity is spearheading a \$14 million Hospitality Emergency Grant Program to provide bars, restaurants and hotels with working capital. The application closes at 5pm on 4/1.

[Chicago Small Business Resiliency Fund \(Chicago, IL\)](#)

\$100 million economic relief package to support Chicago's small businesses that are experiencing a temporary loss of revenue as a result of the COVID-19 outbreak. Application period starts March 31st.

[Illinois Small Business Emergency Loan Fund \(Illinois – outside Chicago\)](#)

Illinois DCEO and IDFP program to offer small businesses low interest loans of up to \$50,000. Businesses with fewer than 50 workers and less than \$3 million in revenue in 2019 will be eligible to apply.