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How the Expanded EIDL Program Can Help Your Small Business

Presented by FourFront Advisors

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), signed into law on March 27, 2020, includes several small business-focused provisions designed to allow businesses to retain employees and to help them pay expenses during this difficult time.

One provision specifically expands the Economic Injury Disaster Loan (EIDL) program administered by the Small Business Administration (SBA). Through it, small businesses with 500 or fewer employees (including sole proprietors, independent contractors, and self-employed individuals), ESOP-owned businesses, nonprofits, and veterans' organizations are eligible for government-backed loans. Other businesses may be eligible if they meet applicable size standards set by the SBA for the industry.

To be eligible for a loan, the business must have existed on January 31, 2020.

How Much Can You Borrow?

Businesses are eligible to borrow up to \$2 million, with a maximum loan term of 30 years. The current rate of interest for for-profit businesses is 3.75 percent; it's 2.75 percent for nonprofits. You may apply for an EIDL through December 31, 2020.

What Expenses Can an EIDL Cover?

Loan proceeds can be used to pay for the following eligible costs (this list is not all-inclusive):

- Payroll costs, including paid sick leave for employees unable to work due to COVID-19
- Principal and interest on mortgage payments
- Rent
- Increased materials costs due to supply chain disruption

Keep in mind, however, that you may *not* use an EIDL to pay the same expenses previously paid by a Paycheck Protection Program (PPP) loan. Many experts suggest that small businesses meeting the requirements should apply for PPP loans to cover payroll costs (due to the availability of loan forgiveness) and use EIDL proceeds for other needs.

Is There a Loan Forgiveness Provision?

Unlike the PPP program, there is no loan forgiveness provision for EIDLs. Businesses may, however, request an emergency loan advance of up to \$10,000. If used for certain qualified expenses, the loan advance would be treated as a grant, meaning it would not have to be repaid.

It is still unclear how the SBA will determine the amount of the loan advance for organizations.

Can Repayment Be Deferred?

Repayment of the EIDL (excluding the amount of any grant) may be deferred for one year after the loan origination date. The loan interest will continue to accrue during this deferral period, however.

What Else Do You Need to Know?

EIDLs are backed by the federal government. Collateral is required for loan amounts greater than \$25,000. In addition, a personal guarantee is required for loan amounts greater than \$200,000. Be aware that an EIDL cannot be secured by real estate of the guarantor.

Guidance released by the SBA seems to indicate that businesses will need to substantiate, through documentation, that they have “suffered substantial economic injury” related to COVID-19 to be eligible for this type of loan.

What Are the General Application Requirements for an EIDL?

You can apply for an EIDL on the [SBA's website](#).

A business may be eligible for both an EIDL as well as a one-time PPP loan. The key is each loan must be used for each program's specifically authorized expenses, without duplication.

Can I Refinance an EIDL Loan Taken Before Enactment of the PPP?

If you took an EIDL before the PPP was enacted, you are eligible to refinance the loan to a PPP loan to take advantage of loan forgiveness. Any emergency grant received under the EIDL program will be subtracted from the total loan forgiveness amount.

Additional Information Is Available

Additional information on both PPP loans and EIDLs can be obtained from the [SBA's website](#). You may also be able to receive guidance through [SCORE](#) or other professional business associations.

Be sure to keep an eye out for further information from the Treasury, IRS, and SBA in the coming weeks.

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