

Small Business Administration Providing Emergency Funding Due to COVID-19

Labor & Employment Law Update

By Michael Cortina and Brandt Hardy on March 23, 2020

The Small Business Administration (SBA) has become a direct lender to small businesses for emergency working capital needs due to the economic injuries that Coronavirus (COVID-19) is causing. Small for-profit and nonprofit businesses in Illinois, Indiana, Iowa and Michigan and specified counties that are contiguous to these states in Wisconsin, Missouri, and Kentucky (Covid-19 Disaster Areas) are eligible for these SBA Economic Injury Disaster Loans. The application process is online through the SBA website.

Small businesses interested in such emergency funding can utilize the SBA's simple three-step process to apply.

- Step #1 is to click the "Eligible Disaster Area" and confirm that the business is in a Covid-19 Disaster Area.
- Step #2 is to register for a secure password.
- Step #3 is the application process.

The SBA Disaster Loans are up to \$2,000,000.00 and, according to the SBA, the terms are determined on a case-to-case basis to keep payments affordable. The interest rates are 3.75% for a for-profit business, and 2.75% for nonprofit one. The repayment terms can be for up to thirty (30) years. (Check our math, but the monthly payment on a \$300,000 loan at 3.75% for thirty (30) years is about \$1,389.35). The proceeds can be used to pay fixed debt, payroll, accounts payable, and other bills that cannot be paid because of the Covid-19 economic disaster. Loans over \$25,000.00 will require the pledge of collateral, but the lack of sufficient collateral will not be an automatic disqualifier for such emergency funding.

The usual process for obtaining a loan through the SBA is for a business to apply for such a loan through their local approved lender who will help the business obtain the loan and also act as the loan's servicer. The normal process can take at least 14 days, if not longer, to be completed. Now, because of the passage of the Coronavirus Preparedness and Response Supplemental Appropriations Act that was recently signed by the president, these emergency loans are being

made directly by the SBA.

More information about these emergency SBA loans can be found on the SBA website.

While these emergency funds could be beneficial for small businesses in need of funds to keep their businesses afloat, what is the impact on financial institutions with dedicated SBA lenders that find themselves cut-out of the process? Will financial institutions that currently partner with the SBA be called-upon to service these loans after they have been made? Because details are still being determined, and the situation changes on a daily basis, the answers to these questions are not available right now.

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