

# COPING WITH COVID-19: FEDERAL AND STATE FINANCIAL ASSISTANCE

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While the country copes with the evolving obstacles associated with COVID-19, small businesses should be advised of both federal and state programs providing financial assistance. Both the state of Michigan and the federal government are offering low-interest loans. Most recently, the United State Senate passed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) on a vote of 96-0. Below is a summary of the important provisions of the Act, along with other federal and state resources available to businesses coping with COVID-19.

## **PAYCHECK PROTECTION PROGRAM UNDER THE CARES ACT**

Eligibility. If passed as currently written, the Act will create the Paycheck Protection Program (the PPP), which will provide forgivable Small Business Administration (SBA) loans to businesses, 501(c)(3) nonprofits, certain veteran's organizations, and Tribal businesses. Generally, to be eligible to receive a PPP loan, a business must not employ more than 500 employees. However, hotel, hospitality, and restaurant businesses employing more than 500 employees, but not more than 500 employees at a single physical location, will still be eligible. The SBA will guaranty all PPP loans 100%.

Extent of Loans. Each PPP loan will be capped at \$10 million, but SBA will calculate the ultimate size of the loan based on a multiple of the recipient's payroll costs.

Use of Loan Funds. Employers may use these loans only for specific purposes, including:

- Employee salaries or wages,
- Health care benefits including premiums, sick leave, medical leave, or family leave benefits
- Employee salaries, commissions, or similar compensation
- Interest payments on covered mortgages
- Rent payments
- Utilities
- Interest on any other debt obligations during the covered period

Employers cannot apply PPP loans to cover wages that are in excess of \$100K for any employee prorated for the period between February 15 and June 30, 2020.

Applying for the Loan. When applying for a PPP loan, employers must certify that:

- The uncertainty of current economic conditions makes the loan necessary to support ongoing operations
- The employer will use loan funds to retain workers, maintain payroll, or make mortgage payments, lease payments, and utility payments
- The employer does not have any other pending application for a loan for the same purpose and duplicative of amounts applied for or received under another loan.

Between February 15, 2020 and December 31, 2020, the applicant has not received other amounts for the same purpose.

No Personal Guaranty Required. PPP loans will not require any personal guaranty and have no SBA fees associated with them. When assessing applications, lenders must consider whether the employer was in operation on February 15, 2020, had employees for whom the borrower paid salaries and payroll taxes, or paid independent contractors.

Loan Forgiveness. PPP loans will be forgivable based on the actual amount of the recipient's payroll expenses during the period following the loan disbursement. This means the sum of funds used to cover payroll costs, interest payments on covered mortgages, payments on covered rent obligations, and utility payments during the 8-week period following initial receipt of the loan.

However, the forgiveness of the PPP loan is reduced by an amount equal to: 1) any reduction in retained employees during the covered period, as compared to the same period in the previous year and 2) any pay reduction that exceeds 25% of an employee's compensation during the previous year. Importantly, though, any reduction in the number of full time employees or a reduction of salary of 1 or more employees during the period beginning February 15, 2020, and ending 30 days after the enactment of the Act, will not affect loan forgiveness if the employer eliminates the reduction of full time employees before June 30, 2020. It is the expectation of participating in a PPP loan that an employer will retain or re-employ its entire workforce at essentially the same rate of pay during this crisis.

Loan Repayment. After applying the forgiveness formula, any remaining balance on the loan will have a maximum maturity date of 10 years with a maximum interest rate of 4%. Payments on interest will be deferred for periods ranging between 6 months and 1 year.

## **U.S. SMALL BUSINESS ADMINISTRATION'S ECONOMIC INJURY DISASTER LOANS**

The U.S. Small Business Administration (SBA) offers a variety of different loans to businesses and individuals who have suffered harm as a result of a declared disaster. Most relevant to small businesses in the days of COVID-19 is the Economic Injury Disaster Loan (EIDL).

Eligibility for the Loan. SBA determines whether a business is a "small business" according to its size standards table, which businesses can access on the [SBA's website](#). Any small business that 1) has suffered "substantial economic injury" and 2) is in a declared disaster area may be eligible for an EIDL.

- A business has suffered a substantial economic injury when it is "unable to meet its obligations and pay its ordinary and necessary operating expenses."
- As of March 19, 2020, every small business in Michigan is in a COVID-19 disaster area.

Therefore, all Michigan small businesses unable to meet their financial obligations due to of COVID-19 may be eligible to receive an EIDL. Importantly, however, religious organizations, charitable organizations, and gambling operations are categorically ineligible to receive EIDLs.

Any eligible business may apply [online on the SBA's website](#). An SBA loan officer will work with applicants and should reach a final determination within 21 days; however, this may take longer due to the unprecedented widespread nature of COVID-19 and the correspondingly high volume of loan applicants. For more details on EIDLs and the application process, see [Michigan's Small Business Development Center](#).

Extent of Loans. Eligible businesses can each receive EIDLs for up to \$2 million to help meet their financial obligations and operating expenses that they could have met but for COVID-19.

Loan Repayment. SBA will determine repayment terms according to the recipient-business's ability to repay, but the term will not exceed 30 years. Interest on the EIDL is 3.75%.

Other Terms. The CARES Act, if passed, will waive 1) personal guarantee requirements on EIDLs below \$200,000, 2) any requirement that a loan recipient had been in business for a period of a year before the disaster, and 3) the "credit elsewhere" requirement (which would otherwise preclude a business's loan eligibility if the business could obtain credit from a different source). Further, an Emergency Grant will be established to provide eligible entities that have applied for an EIDL due to the COVID-19 pandemic with an advance on the loan, which SBA must distribute within three days of receiving a request. These advances will be capped at \$10,000.

## **MICHIGAN SMALL BUSINESS RELIEF PROGRAM**

Small businesses impacted by COVID-19 may also pursue financial assistance from the State of Michigan through the Michigan Small Business Relief Program (the Program). The Program will provide a total \$20 million in support of Michigan small businesses experiencing stark reductions in cash flow, which amount is divided in half between loans and grants. Funding for the Program is expected to be available on or about April 1, 2020.

### **\$10 Million for Loans**

The Program will provide \$10 million in loans to eligible businesses that are undergoing financial hardship from COVID-19. To be eligible, a business must:

1. Be part of an industry outlined in Executive Order 2020-9<sup>1</sup>, or is otherwise affected by the COVID-19 outbreak, or provides goods and services to companies fitting the aforementioned
2. Have fewer than 100 employees;
3. Need working capital to support payroll expense, rent, mortgage payments, utility expenses, or other similar expenses that occur in the ordinary course of business;
4. Demonstrate that it is unable to access credit through alternative sources;
5. Demonstrate it lost income as a result of Executive Order 2020-9

The Michigan Economic Development Corporation (MEDC) will determine loan repayment terms according to individual recipient needs. However, the Program generally anticipates that recipients will

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<sup>1</sup> Executive Order 2020-9 originally imposed restrictions on the use of places of public accommodation but has been rescinded by Executive Order 2020-20. Industries identified in Executive Order 2020-20 include:

- Restaurants, food courts, cafes, coffeehouses, and other places of public accommodation offering food or beverage for on-premises consumption
- Bars, taverns, brew pubs, breweries, microbreweries, distilleries, wineries, tasting rooms, special licensees, clubs, and other places of public accommodation offering alcoholic beverages for on-premises consumption
- Hookah bars, cigar bars, and vaping lounges offering their products for on-premises consumption
- Theaters, cinemas, and indoor and outdoor performance venues
- Libraries and museums
- Gymnasiums, fitness centers, recreation centers, indoor sports facilities, indoor exercise facilities, exercise studios, and facilities offering non-essential personal care services
- Casinos licensed by the Michigan Gaming Control Board, racetracks licensed by the Michigan Gaming Control Board, and Millionaire Parties licensed by the Michigan Gaming Control Board
- Places of public amusement not otherwise listed

only pay monthly interest for the first 60 months of the term. Interest on the loans will .25% per annum. Available loan amounts for eligible businesses will range from \$50,000 to \$200,000.

### **\$10 Million for Grants**

In addition to the low-interest loans discussed above, the Program will provide \$10 million for immediate grant support to businesses hardest hit by the COVID-19 outbreak. Specifically, the Program will distribute funds to local economic development organizations, which will in turn provide grants of up to \$10,000 to particular small businesses across Michigan that have realized a “significant financial hardship.”

To be eligible to receive grant funds, a business must:

1. Be part of an industry outlined in Executive Order 2020-9, or any subsequent Executive Order of similar intent (“EO”), or has otherwise been affected by the COVID-19 outbreak, and meets one or more of the following:
  - a. Provides support to impacted employees;
  - b. Is located in a downtown district or high impact corridor or has 50 employees or less;  
OR
  - c. Provides services to companies outlined in the EO and requires additional employees to support to companies or employees impacted by EO
2. Have 50 employees or less;
3. Need working capital to support payroll expenses, rent, mortgage payments, utility expenses, or other similar expenses that occur in the ordinary course of business; AND
4. Demonstrate an income loss as a result of the EO, or the COVID-19 outbreak

For more details on the Program’s loans or grants, click [here](#) to visit the MEDC website.



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