



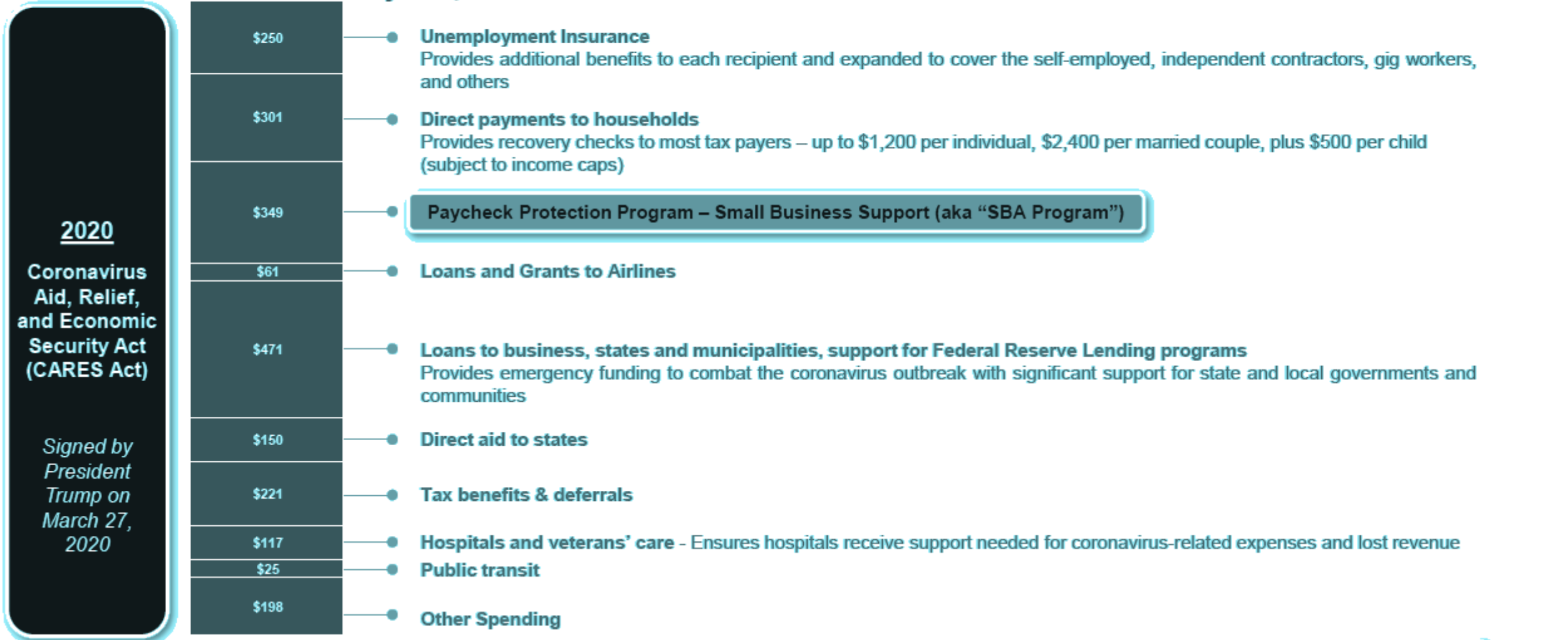
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The CARES Act

Overview of the Paycheck Protection Program

Defining the CARES Act

The CARES Act stimulus plan focuses on relief for Individuals and Main Street with the goal to keep workers paid, provide enhancements to the healthcare system, and stabilize businesses (\$ in billions)



2020
Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

Signed by President Trump on March 27, 2020

Total of \$2.14TN
Reflects ~10% of U.S. GDP



Sources: WSJ Spend Generously, Take Care of Workers: Coronavirus Stimulus Takes Lessons From TARP 3-26-20, Mitch McConnell Press Release 3-26-20; CORONAVIRUS AND RELIEF, AND ECONOMIC SECURITY ACT –signed into law by President of United States on March 27, 2020.

Paycheck Protection Program | General SBA Guidelines

Covered Loans & Period	“Covered Loans” are loans made during the “Covered Period” of February 15, 2020 through June 30, 2020
Eligibility Requirements	<ul style="list-style-type: none">▪ “Small business concerns” as currently defined under the SBA (<i>see slide 7 for details</i>)▪ Any business concern, nonprofit, veterans organization, or Tribal business concern with no more than 500 employees (full-time or part-time), unless the SBA has established a higher threshold for the relevant industry▪ Sole proprietors, independent contractors, and eligible self-employed individuals▪ Businesses i) with more than one physical location and ii) assigned to NAICS Code 72 – “Accommodation and Food Services” are eligible if there are 500 or fewer employees per location▪ SBA needs to issue further guidance as it relates to affiliation rules and the eligibility of sponsor-backed companies
Loan Amount	<ul style="list-style-type: none">▪ Equals the lesser of (i) 2.5x the average total monthly payroll costs from past year, or (ii) \$10 million▪ Payroll costs includes wages, salary, commissions, cash tips, and payments for vacation and sick leave, for health benefits/premiums, for dismissal/separation, for retirement benefits, and for state and local compensation taxes (payroll costs excludes compensation of an individual employee in excess of \$100k annual salary)▪ Alternate calculations for seasonal employers, businesses not in existence prior to June 30, 2019 and businesses with outstanding loans under the SBA’s Disaster Loan Program▪ Calculation of the maximum loan amount does not equate to the calculation of the maximum forgivable amount
Use of Proceeds	Payroll costs, interest on mortgages, or other debts incurred before the covered period, rent and utilities (in addition to current SBA permissible uses)
Loan Deferral & Loan Forgiveness	<ul style="list-style-type: none">▪ Payment of principal, interest and fees will be deferred for not less than 6 months and not longer than 1 year▪ Loan forgiveness available subject to proper documentation (may not apply to entire loan amount)
Pricing	Up to 4.0%
Tenor	Up to 10 years (only applies to unforgiven loan balance)
Security	Unsecured - No collateral or personal guarantee required
SBA Fees	None
Documentation Requirements	<ul style="list-style-type: none">▪ Borrower must provide a good-faith certification as to COVID-19 impact, use of funds, attestation of no other pending applications for a covered loan, and no duplicative funds received▪ Payroll tax filings required by self-employed individual, independent contractor or sole proprietor, and income and expenses as determined by the SBA and the Secretary of the Treasury



Paycheck Protection Program | Loan Forgiveness

Eligible borrowers are eligible for loan forgiveness in an amount equal to costs documented during a special “covered period” – which is the 8-week period beginning on the date of loan origination

Costs Subject to Loan Forgiveness



Qualified Payroll Costs



Interest on
Mortgage Obligations
(No Principal or Prepayments)



Rent



Utility Payments

Key Terms to Know

- The forgiveness amount **cannot exceed** the principal amount of the covered loan
- There is a detailed calculation for dealing with previously laid-off employees, other reductions, re-hires, etc.
- Forgiveness amounts will be **reduced** for any employee cuts or reductions in wages during the covered period, unless the business rehires the employees or eliminates the wage reductions by June 30, 2020
- Payroll costs excludes compensation of an individual employee in excess of **\$100k annual salary**
- Borrowers are required to **submit** an application for loan forgiveness, which **will require** extensive documentation verifying the information needed
 - Will require additional documentation for **non-payroll use of proceeds** (interest on mortgage obligations, rent, and utility payments)
 - Will require a certification from recipient that information is true and correct
- Forgiven indebtedness shall be **excluded** from gross income for IRS purposes

A borrower will not receive loan forgiveness without submitting all of the required documentation



CARES Act | Relief for Existing SBA Borrowers

Existing SBA Borrowers may be eligible for 6 months of payment relief. This is separate from the Paycheck Protection Program

Major SBA Programs Eligible for Existing Borrower Relief

✓
7(a) Loan Guarantee Program

✓
504 Certified Development Company Loan Guarantee Program

✓
Microloan Program

The SBA will pay (and relieve the borrower of any obligation to pay) the principal, interest, and any associated fees owed on a loan in a regular servicing status:

For Loans Made Before March 27, 2020

- If the loan is not already on deferment, the SBA will pay the principal, interest and fees for the six-month period beginning with the **next payment due**
- If the loan is already on deferment, the SBA will pay the principal, interest and fees for the six-month period beginning with the **next payment due after deferment**

For Loans Made within 6 Months of March 27, 2020

- The SBA will pay the principal, interest and fees for six months **after the first payment is due**

Details around the payment relief application process will be forthcoming



CARES Act | Emergency Injury Disaster Loan and Grants

Borrowers may apply for Emergency Injury Disaster Loan (“EIDL”) and EIDL Grants directly with the SBA

EIDL Loans

- EIDL Loans can be applied for directly with the SBA on the [SBA Application Website](#)
- For the period from January 31, 2020 to December 31, 2020, the CARES Act expands the eligibility and modifies requirements for EIDLs
 - Current requirements allow for EIDLs up to \$2.0MM at an interest rate of 3.75% for small businesses and 2.75% for non-profits, with maturities up to 30 years
 - **Waiver of current conditions/requirements**, including no personal guarantee required on loans ≤ \$200k and **no requirement to be in business for one year** (but must have been in operation on January 31, 2020)

EIDL Grants

- An EIDL Grant may be requested as an advance on an EIDL Loan applied for directly with the SBA on the [SBA Application Website](#)
- For the period from January 31, 2020 to December 31, 2020, eligible entities may request SBA to provide an advance of **up to \$10,000**
- Funds can be used for **any allowable purpose including:**
 - 1 Pay sick leave to employees unable to work due to COVID-19
 - 2 Maintaining payroll and retaining employees
 - 3 Meeting increased costs of materials which are unavailable due to interrupted supply chains
 - 4 Rent or Mortgage Payments
 - 5 Repaying obligations
- If the borrower is approved for or is transferred into a 7(a) loan under the **Paycheck Protection Program**, the EIDL Grant amount will **reduce the forgiveness amount of the loan**



Additional Information

What is the SBA? The SBA was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation

What is the standard 7(a) Loan? The 7(a) loan program is the SBA's primary program for providing financial assistance to small businesses. The terms and conditions, like the guaranty percentage and loan amount, may vary by the type of loan. The maximum loan amount is \$5 million and proceeds can be used to finance working capital, expansion/renovation, new construction, purchase of land or buildings, purchase of equipment or fixtures, lease-hold improvements, refinancing debt for compelling reasons, seasonal line of credit, inventory, or starting a business

What is the SBA 504 Loan? The 504 Loan Program provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. 504 loans are made available through Certified Development Companies (CDCs), SBA's community based partners for providing 504 Loans. These loans are typically used to finance commercial real estate or heavy equipment

What is the Microloan Program? The Microloan program provides loans up to \$50,000 to help small businesses and certain not-for-profit childcare centers start up and expand. The average microloan is about \$13,000

How does SBA currently define Small Business concerns?

(a-1) Except for small agricultural cooperatives, a business concern eligible for assistance from SBA as a small business is a business entity organized for profit, with a place of business located in the United States, and which operates primarily within the United States or which makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials or labor

(a-2) A small agricultural cooperative is an association (corporate or otherwise) acting pursuant to the provisions of the Agricultural Marketing Act (12 U.S.C.A. 1141j) whose size does not exceed the size standard established by SBA for other similar agricultural small business concerns. A small agricultural cooperative's member shareholders are not considered to be affiliates of the cooperative by virtue of their membership in the cooperative. However, a business concern or cooperative that does not qualify as small under this part may not be a member of a small agricultural cooperative

(b) A business concern may be in the legal form of an individual proprietorship, partnership, limited liability company, corporation, joint venture, association, trust or cooperative, except that where the form is a joint venture there can be no more than 49 percent participation by foreign business entities in the joint venture

(c) A firm will not be treated as a separate business concern if a substantial portion of its assets and/or liabilities are the same as those of a predecessor entity. In such a case, the annual receipts and employees of the predecessor will be taken into account in determining size

What is included in NAICS Code 72? Accommodation and Food Services, which includes hotels, motels, casino hotels, bed-and breakfast inns, other traveler accommodation, RV (recreational vehicle) parks and campgrounds, recreational and vacation camps, rooming and boarding houses, dormitories, workers' camps, food service contractors, caterers, mobile food services, drinking places, full-service and limited-service restaurants, cafeterias, buffets, and snack and nonalcoholic beverage bars

Additional Resources

--- CARES ACT Bill: [LINK](#)

--- SBA website: [LINK](#)

**For Additional Information Contact A Citizens Trust Bank Financial Relationship Professional
Or visit us online at ctbconnect.com**