CARES Small Business Economic Disaster Loan Program

March 31, 2020

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A. General Overview

What is the CARES Act (Coronavirus Aid, Relief, and Economic Security Act)?

- President Trump signed the CARES Act in the afternoon of March 27, 2020 after it passed the U.S. Senate and House.
- CARES Act 7(a) Business Loan Program:
  - Made several changes to the Economic Injury Disaster Loan (EIDL) Program (which went into effect 1/31/20); most notably reduction in requirements (See Loan Terms) and ability for local lenders to process without SBA approval.
  - Provides small businesses (<500 employees) with working capital loans up to $10 million to help small businesses overcome the temporary loss of revenue.
- Funds must be used to retain workers/maintain payroll, pay mortgage interest, lease, and utility payments.
- Loan forgiveness and payment deferral if certain requirements are met (See Section D).

Borrower requirements

- The loan is needed to continue operations during the COVID-19 emergency.
- Funds will be used to retain workers and maintain payroll or make mortgage, lease, and utility payments.
- The applicant does not have any other application pending under this program for the same purpose.
- From February 15, 2020 until December 31, 2020, the applicant has not received duplicative amounts under this program.
Loan terms (key points)

- For most primary care practices: The loan amount (subject to the maximum identified below) is equal to:
  a) 2.5x average total monthly payroll costs incurred in 12 months prior to loan PLUS
  b) The outstanding amount of a loan made under the SBA’s Disaster Loan Program between January 31, 2020 and the date on which such loan may be refinanced as part of this new program

- Maximum total loan (a+b) = $10 million
- Interest rates capped at 4%
- No collateral requirement
- No prepayment penalties
- Payments are deferred for 6 to 12 months
- Forgiveness Period: Eight-week period beginning on the date of the loan. This is the period in which eligible expenses may be forgiven; however, the remainder of the loan may be used beyond the eight-week period and will be subject to the terms of the loan.

B. How to Apply

Update: The U.S. Treasury released new guidance for borrowers and lenders on Tuesday March 31, 2020, including a simplified application form and a target date of April 3, 2020, for accepting applications (April 10 for sole proprietorships). This entire section has significant updates from the prior version.

Instructions

1. Complete the application and related forms from the SBA website (all linked in section 2 below).
2. Contact and apply with your local lender.
3. Be prepared to gather additional information that may be required by your lender.

1) Complete application form:

   - Business Loan Application [SBA Form 2483](#)
     - See more info here (U.S. Department of Treasury).

Payroll calculation

Calculation of max loan amount: (12 months total payroll / 12) * 2.5

Date range: Use most recent 12 months prior to application

Payroll costs definition:

<table>
<thead>
<tr>
<th>Inclusions</th>
<th>Exclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Compensation to employees: Salary, wage, commissions, cash, etc.</td>
<td>• Employee compensation exceeding $100,000 per year, prorated for the covered period</td>
</tr>
<tr>
<td>• Paid leave</td>
<td>• Certain federal taxes</td>
</tr>
<tr>
<td>• Severance payments</td>
<td>• Compensation to employees whose principal place of residence is outside of the U.S.</td>
</tr>
<tr>
<td>• Payment for group health benefits, including insurance premiums</td>
<td>• Sick and family leave wages for which credit is allowed under the Families First Act</td>
</tr>
<tr>
<td>• Retirement benefits</td>
<td></td>
</tr>
<tr>
<td>• State and local payroll taxes</td>
<td></td>
</tr>
<tr>
<td>• Compensation to sole proprietors or independent contractors (including commission-based compensation) up to $100,000 in 1 year, prorated for the covered period</td>
<td></td>
</tr>
</tbody>
</table>
* Note that your lender may ultimately determine and/or verify your payroll calculation.

2) Submit your loan application to your local lender

Take your compiled loan application to your practice’s preferred vendor/current bank partner. Any private lender that currently provides small business loans should be able to process. Ensure your lender knows you are applying for a CARES Act Business Loan.

3) Prepare for potential forms that may be requested by your lender.

Note: These were required for the EIDL Program, but NOT part of PPP application. It may not be a good use of time to complete all of this information, but beneficial to know how to access the following sources of information:

- Complete copy of practice’s 2019 federal income tax return (use 2018 if 2019 has not been filed), including all schedules.
  - If neither are available, include year-end profit-and-loss statement and balance sheet.

For each owner:

- Tax Information Authorization Form (IRS Form 4506-T)
- Personal Financial Statement (SBA Form 413)
- Schedule of Liabilities including all fixed debts (SBA Form 2202)

Other documents

- Current year-to-date profit-and-loss statement
- Monthly sales figures (SBA Form 1368)
- Most recent personal return for each owner

C. General loan requirements and documentation

When will funds be available for distribution?¹¹

- Unknown as of March 31, 2020. If you need immediate assistance, you be able to obtain a $10,000 advance with the Economic Injury Disaster Loans and Advance program. As of March 31, 2020, the Pediatric Care Network has little guidance on how this loan will link to the PPP loan maximum.

What are qualified expenses?

- Payroll costs (same definition B.1; wages over $100,000 annualized are excluded)
- Group health care benefits for paid sick, medical, or family leave, and insurance premiums
- Salaries, commissions or similar compensations
- Payments of interest on mortgage obligations
- Rent or lease agreement payments
- Utilities
- Interest on any other debt obligations incurred before the covered period
D. Forgiveness requirements

General Information

- Indebtedness is forgiven (and excluded from gross income) in an amount (not to exceed the principal amount of the loan) equal to the following costs incurred and payments made during the covered period:
  - Payroll costs (not to exceed $100,000 of annualized compensation per employee)
  - Payments of interest on any mortgage loan incurred prior to February 15, 2020
  - Payment of rent on any lease in force prior to February 15, 2020
  - Payment on any utility for which service began before February 15, 2020
- SBA has 30 days from enactment of CARES Act to provider borrow with guidance

Forgiveness reduction factors

- Forgiveness amounts will be reduced if the average full-time employee equivalent (FTEE) and/or wages are reduced during the covered period compared to a baseline period (see below)
- Formulas will be used to reduce forgiveness amounts but NOT to increase forgiveness amounts
- Any amount outstanding after considering the amount forgiven will be repayable over a term not to exceed 10 years

<table>
<thead>
<tr>
<th>Full Time Employee Equivalent formula</th>
<th>Wage reduction formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg # FTEE per month during the covered period</td>
<td>Straight reduction for any amount in excess of 25% of salary of any employee during the covered period compared to the most recent full quarter prior to covered period</td>
</tr>
<tr>
<td>Avg # FTEEs per month from 2/15/19 - 6/30/19 OR</td>
<td></td>
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<tr>
<td>Avg # FTEEs per month from 1/1/2020 - 2/29/20</td>
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- * Denominator time frame is borrower’s choice
- * No penalty for FTEE reduction made between 2/15/20 and 4/26/20 if FTEE is rehired/made whole by 6/30/20

What needs to be tracked?

- Documentation verifying FTEE on payroll and their pay rates
- Documentation on covered costs/payments (e.g., documents verifying mortgage, rent, and utility payments)
- Certification from a business representative that the documentation is true and correct and that forgiveness amounts requested were used to retain employees and make other forgiveness-eligible payments
- Any other documentation the lender may require
E. Support and capabilities

- Contact Physician Relations (PhysicianRelations@childrenscolorado.org) for questions about this document or for further support if needed.
- **Children’s Colorado COVID-19 Healthcare Professionals**: https://www.childrenscolorado.org/covid19

F. References

- [US Department of Treasury Assistance for Small Businesses](#10)
- [US Chamber of Commerce Coronavirus Emergency Loan Checklist](#7)
- [National Law Review Overviews](#5)
- [Steptoe Legal Overview](#)
- [Latham & Watkins FAQs](#) - Distinguishes between CARES Act 7(a) Loans and SBA EIDL Loans
- [SBA Coronavirus Small Business Guidance & Loan Resources](#6)
- [CARES Act Full Text](#)

Version Updates

1. 3.30.20: Covered period updated to state eight-week period from loan origination.
2. 3.30.20: Contact your local SBA approved lender/bank for application submission. The Fed is targeting funds availability by Friday April 3rd.
3. 3.30.20: All sources indicate compensation up to $100K can be included.
4. 3.30.20: Submission process still being finalized by SBA.
5. 3.30.20: Added National Law Review source.
6. 3.30.20: SBA Link updated.
7. 3.31.20: Added U.S. Chamber Checklist link.
8. 3.31.20: Modified the application process per new U.S. Treasury guidance.
9. 3.31.20: Identified the forgiveness period as an 8-week period.
10. 3.31.20: Added U.S. Dept. of Treasury Assistance resource.
11. 3.31.20: Added link to EIDL Advance Loan program.