

COVID-19 Alert: Small Business Loan Programs

State and Federal COVID-19 Small Business Loan Programs

By: Amanda E. Thibodeau and Joseph E. Hunt IV
March 20, 2020



Recent Updates:

- As of 12:30 PM on Thursday, March 19 the **Massachusetts Small Business Recovery Loan Fund** through MGCC is no longer accepting applications. They cite the availability of the federal SBA EIDL as the reason.
- Massachusetts received approval for the Governor Baker's disaster declaration effective March 18 – small businesses and private non profits from all counties in MA are now able to apply for SBA EIDL loans.

With COVID-19 causing disruption to businesses large and small, on both the federal and state levels existing programs and new programs are being launched to assist small businesses in these trying times. We outline the current status of these programs below.

Federal – Small Business Administration (“SBA”) Economic Injury Disaster Loan (“EIDL”)

Currently, Massachusetts small businesses and private non-profit organizations in Berkshire, Bristol, Hampden, Norfolk, and Worcester counties may qualify for EIDLs of up to \$2 million to help meet financial obligations and operating expenses which could have been met had the disaster not occurred. Right now only these five Massachusetts counties are currently eligible since they are contiguous with Connecticut and/or Rhode Island – two states which have already received an EIDL declaration from the SBA.

On March 17, 2020, Massachusetts Governor Charlie Baker requested an EIDL disaster declaration for all counties in Massachusetts. If approved, the SBA will issue an EIDL declaration pursuant to authority granted it by the recently enacted Coronavirus Preparedness and Response Supplemental Appropriations Act.

If approved, small businesses and private non-profit organizations that have been financially impacted as a direct result of the Coronavirus since the date Governor Baker's request is applied may qualify for EIDLs of up to \$2 million to help meet financial obligations and operating expenses which could have been met had the disaster not occurred.

SBA EIDLs are only available to those small businesses and private non-profit organizations that cannot obtain credit elsewhere.

To apply, there is a three-step application process:

1. Apply for loan

a. Apply online at disasterloan.sba.gov/ela

b. Small businesses or private non-profits may borrow up to \$2 million for Economic Injury.

A. Economic Injury includes fixed debts, payroll, and other obligations that cannot be paid because of the impact of COVID-19 on revenue.

B. The loan amount will be determined based on an applicant's actual economic injury and financial need. Interest rates will be 3.75%, or 2.75% for non-profits, and repayment terms (up to a maximum of 30 years) will be determined on a case-by-case basis, based upon a borrower's ability to repay.

2. Property Verified and Loan Processing Decision Made

a. SBA reviews the small business's credit as well as the credit of certain principal owners, members, and partners.

b. A loan officer will determine a business's eligibility during processing, after reviewing any insurance or other recoveries available. To the extent a business has insurance policies covering this sort of loss, the SBA can still make a loan while the insurance recovery is pending.

c. A loan officer works with the applicant to provide all necessary information (more below) needed to reach a loan determination. SBA's goal is to arrive at a decision on the application within 2-3 weeks. Therefore, **time is of the essence!**

d. A loan officer contacts the business regarding the loan recommendation and next steps.

3. SBA prepares and sends all loan closing documents to the business owner for signature.

a. Once the SBA receives signed loan closing documents, an initial disbursement of up to \$25,000 will be made within **five (5) days**.

b. A case manager is assigned to work with the applicant to meet all loan conditions as well as schedule subsequent disbursements until receipt of the full loan amount.

The following documents are **required** to apply:

- *Business Loan Application on SBA Form 5* completed and signed by the business applicant.
- *IRS Form 4506-T* completed and signed by (i) the applicant business, (ii) each principal owning 20% or more of the applicant business, (iii) each general partner or managing member (if applicable), and, for any owner who has more than a 50% ownership in an affiliate business (defined as including parents, subsidiaries, and/or businesses with common ownership or management).
- Complete copies, including all schedules, of the most recent *federal income tax returns* for the applicant business (an explanation if not available).
- *Personal Financial Statement on SBA Form 413* completed, signed, and dated by the applicant (if sole proprietorship), each principal owning 20% or more of the applicant business, each general partner or managing member.

- A schedule of liabilities listing all fixed debts on *SBA Form 2202*.

In addition, the following documents may be required by the SBA:

- Complete copies, including all schedules, of the most recent *federal income tax returns* for each principal owning 20% or more of the applicant business, each general partner or managing member, and each affiliate when any owner has more than a 50% ownership interest in the affiliate business.
- If the most recent federal income tax return (2019) has not been filed, a *year end P&L statement and balance sheet* for the tax year is acceptable.
- A current *year-to-date P&L statement*.
- Additional filing requirements on *SBA Form 1368* providing monthly sales figures.

Massachusetts – Small Business Recovery Loan Fund (“SBRLF” or the “Fund”)

On March 16, 2020, Massachusetts Governor Baker announced a \$10 million loan fund providing financial relief to Massachusetts-based small businesses affected by COVID-19. The Fund, capitalized by Massachusetts Growth Capital Corporation (“MGCC”), a quasi-public corporation, will administer it.

Under the Fund, Massachusetts-based small businesses (under 50 full and part-time employees), including non-profits, can apply for up to \$75,000 in funds. The SBRL is offered with no payments due for the first six months, and then 30-months of principal and interest payments thereafter, structured over 30 months.

To apply:

Apply for loan.

- a. Apply online at EmpoweringSmallBusiness.org

A. Download the Application and email it (and required attachments) to mgcc@massgcc.com with the subject line “2020 Small Business Recovery Loan Fund.”

- b. Small businesses or private non-profits may borrow up to \$75,000.

A. Excluded businesses include companies involved in real estate investment, multi-level marketing, adult entertainment, or firearms. Additionally, companies with past due tax liabilities or tax liens or those currently in personal or corporate bankruptcy are excluded.

B. Approval is also contingent on the business being profitable prior to March 10, 2020, with no adverse personal credit reports 60 days past due for the last 6 months.

C. A personal guarantee of all owners with 20% or more interest in the company is required, and a minimum credit score of 575.

D. The annual interest rate (beginning in month 7) is 3.0%.

E. Applicant must be able to verify and explain how it has been impaired by

COVID-19.

The following documents are required to apply:

- *MCGG Recovery Fund Application*, completed and signed by the business applicant.
- *2018 business and personal tax return*.
- *Interim 2019 internally prepared financials*.
- *Interim 2020 internally prepared financials* (through 2/29/2020).
- Copy of front and back of *Massachusetts driver's license or government-issued ID*.
- Additionally, as part of the application process, the business is required to fill out its monthly operating expenses, showing items such as payroll, payroll taxes, rent, utilities, and insurance costs.

Morse is following this topic closely. Please feel free to reach out to your Morse contact, or to speak with **Joe Hunt** or **Amanda Thibodeau** directly, should you have any questions or need assistance in the application process.