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Paycheck Protection Program

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted on March 27, 2020, includes a key provision – the **Paycheck Protection Program** – that expands the U.S. Small Business Administration’s (SBA) existing 7(a) loan program. The program provides **\$349 billion** for small businesses to cover near-term operating expenses and keep their employees.

Eligibility:

The Paycheck Protection Program is available to small businesses, 501(c)3s, Tribal businesses, and veterans’ organizations that:

- Have less than 500 employees or are self-employed individuals (sole proprietors or independent contractors)
- Were in business on February 15, 2020
- Paid payroll taxes on employees or paid independent contractors

Also eligible are accommodation and food service businesses (NAICS Code 72) with 500 or fewer employees per location and less than \$500 million in gross annual receipts in 2019.

How does the Paycheck Protection Program Work?

Eligible entities can apply for loans made directly by private, local banks and Community Development Financial Institutions (CDFI):

- Covered loan period of February 15, 2020 – June 30, 2020
- Loans can be used for:
 - Payroll costs, including: salaries/wages; paid vacation, parental, family, medical, or sick leave; allowance for dismissal or separation; group health care benefits; retirement; payment of state and local taxes assessed on the compensation of employees; and the sum of payments to an independent contractor)
 - Mortgage payments
 - Rent / lease payments
 - Utilities
 - Interest on existing debt
- Loan maturity is 10 years
- No personal/individual guarantees required; SBA guarantees 100% of the loan
- Borrowers must provide good faith certification that the loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to allowable uses

Loan forgiveness:

- The following expenses will be forgiven during the 8-week period after the loan is originated: payroll and benefit costs, rent, utilities, and payments on interest of a mortgage obligation
- For salaries above \$100,000, expenses above that cap are not eligible for forgiveness
- Forgiveness is proportionally reduced for entities that have already laid-off employees (e.g., if an entity laid-off 25% of their employees, the forgiveness would be reduced to 75%) – entities can remediate this penalty by rehiring employees prior to June 30
- Forgiveness amount cannot exceed principal amount of the loan

(MORE)



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What is the loan amount and what are the interest rates?

Loan amounts are calculated using the average total monthly payments for payroll costs over the last 12 months – that monthly average is multiplied by 2.5 to determine the maximum loan amount. Loan amounts are capped at \$10 million, and interest rates cannot exceed 4%.

All information is pending forthcoming rulemakings / guidance from the U.S. Small Business Administration (SBA).