



# Understanding The New SBA Loan Programs



# K2

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# Today's Lending Landscape

- Many have put in temporary lending moratoriums (both conventional and SBA)
- For those who are lending, many have stopped accepting new application
- SBA "traditional" programs are still in place (7a, 504, Express, etc.)
- Non-bank lenders (A/R / inventory, fintech) staying the course or stepping up
- Essential Industries can and should still be eligible for lending
- Those abruptly shut down or severely disrupted should embrace SBA's new programs

# What to do NOW

- Visualize yourself one year from now: what would your pro-forma look like?
- Finalize 2019 year-end financials (P&L, Balance Sheet, Debt Schedule, A/R, A/P)
- Finalize March 2020 financials ASAP
- If your 2019 business tax return is not filed, review your 2018 tax return in detail and have your K1s and W2s ready for 2019
- Be current on all payroll, state, or other taxes (NO liens, and do a lien search)
- Keep a thorough and detailed record of your “economic injury”
- Start from when you first experienced any issue in 2020

# What to do **RIGHT NOW**

- If you are eligible for traditional SBA lending or conventional bank lending, apply right away, especially if 2019 (and through 3/20) was strong
- Check your business credit score (Nav, Credit Signal, credit.net, Credit Safe) Source: Credit Karma
- Do all that you can to maintain a “bankable” credit score (680 and above)
  - For you and for any other owner with over 20% ownership
  - If there are “issues,” start working on them now
- Survey all your banks/bankers and your investors to know where they are
- Be in constant contact with your vendors, suppliers, and customers (your A/R and A/P)
- Where would you call in your favors?
  - Can you ask for better payment terms? If you can pay on time can you ask for discounts?
  - Can you return any inventory or supplies for a refund?
- Continually update your cash flow model (for next rolling 12 months)

# SBA Traditional Loans

- Traditional 7a, 504, Express, etc. all still in place
- **BREAKING NEWS:** SBA will make 6 months of payments on all current SBA loans or new loans booked within the next six months
- Remember that the banks are the lenders; the SBA is a guarantor
  - THEIR credit criteria and their eligibility standards must be met
  - Your bank may or may not choose to lend even with an SBA guarantee
- Credit box is shrinking
  - Most are no longer lending to the hospitality industry
  - Only the strongest deals are getting done (e.g. strong cash positions)
- ***Stay in constant communication with your commercial banker***

# SBA New Loan Chart

OVERVIEW	PAYCHECK PROTECTION PROGRAM (PPP)	SBA ECONOMIC INJURY DISASTER LOAN (EIDL)	EIDL EMERGENCY GRANTS
Maximum Loan Amount	2.5x monthly payroll costs capped at \$100K per employee, maximum of \$10MM per borrower	\$2MM	Grant of up to \$10,000
Eligible Borrowers	Business with the greater of i) <500 Employees OR ii) SBA NAICS- specific employee size standards iii) Includes non-profits	Business that meet the SBA size standards	500 or fewer employees • Sole proprietorships (with or without employees or as independent contractors) • Cooperative of 500 or fewer employees • ESOP (500 or fewer employees) • Tribal small business concern (500 or fewer employees)
Use of Proceeds	<ul style="list-style-type: none"> <li>Payroll</li> <li>Interest on mortgage payments (principal or prepayments excluded)</li> <li>Rent</li> <li>Utilities</li> </ul>	<ul style="list-style-type: none"> <li>Payroll</li> <li>Rent</li> <li>Utilities</li> <li>Interest on debt incurred</li> <li>Accounts payable</li> <li>Some bills that could have been paid had the disaster not occurred</li> </ul>	Any allowable purpose for a loan made under Section 7(b)(2): <ul style="list-style-type: none"> <li>provide sick leave to employees unable to work due to direct effect of COVID-19</li> <li>maintain payroll to retain employees during business disruptions or substantial slowdowns</li> <li>meet increased costs to obtain materials unavailable from applicant's original source due to interrupted supply chains</li> <li>make rent or mortgage payments</li> <li>repay obligations that cannot be met due to revenue loss</li> </ul>
Collateral / PG	Waived	Personal guarantee required Will take collateral	Waived
Credit Elsewhere	Waived	Waived	Waived
Forgivable	Yes, up to 100%. Forgiveness of indebtedness of an amount equal to the sum of the qualified costs incurred and payments made during the covered period (8-week period following loan origination. Forgiven portion may be reduced by a reduction in retained employees or reduction in pay of retained employees	No	Yes, Grant
Interest	1% for non-forgiven portion	3.75%	n/a
Term	2 years for non-forgiven portion	Up to 30 years	n/a



# Most Important Insights

- Can apply to all programs, but cannot use proceeds for the same purposes
- These loans were made to pay expenses & retain jobs (not growth/expansion)
- Creditworthiness still counts, though lower credit scores can work for EIDL
- Ability to pay back can be demonstrated in multiple ways
- EIDL administered by SBA; PPP administered by your (deposit) Bank
- PPP will start taking applications Friday April 3 (April 10<sup>th</sup> for contractors and self-employed)
  - Contact your bank now to show your interest
- Think of this as applying to your top choice college or dream job (more is more)
  - Document and substantiate everything, especially “economic injury”



# Payroll Protection Plan (PPP)

<https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf>



# Payroll Protection Plan (PPP)

## Documents for Loan Amount Determination (only for U.S.-residing employees)

- Payroll reports for 2019 and through March 2020, showing the following breakouts by employee (including owners) and by month
- Gross wages (including commission or similar compensation or cash tips or equivalent)
- Paid time off, paid vacation, pay for family medical, parental, medical, and sick leave
- Separation or dismissal, state and local taxes (form 940, 941, or 944)
- Payments for group health care benefits (including premiums), payments for retirement benefits
- For sole proprietors or independent contractors: wages, commissions, income, or net earnings from self-employment
- Any amount paid to one (1) person over \$100K in one year must be excluded from the calculation



# Payroll Protection Plan (PPP)

## Additional required documents

- 2019 company tax return or year-end financials (BS, IS, AR, AP)
- Verification of the number of employees and payroll incurred over the most recent 12-month period
- Bank statements
- Operating agreements and by-laws
- ***PPP application must be filled out by every owner with over 20% ownership***

# Payroll Protection Plan (PPP)

## Documentation for Loan Forgiveness (not required at application time)

- Verification of the number of FTE employees on payroll and pay rates for the 8 weeks following loan origination and documentation
- Payroll tax filings reported to the IRS
- State income, payroll, and unemployment filings
- Verification of mortgage interest, lease, and utility payments (cancelled checks, statements)
- Certification from a representative that the documentation presented is true and correct and the amount for which forgiveness is requested was used to retain employees, make interest payments on mortgage obligations, pay rent or pay utilities

# EIDL

- **Eligibility:** “...must have suffered working capital losses due to the declared disaster”
- **K2’s simple rule:** Before and after
- **Credit History:** “...satisfactory to the SBA.” What does this mean?
- **Repayment:** “SBA must determine that the applicant business has the ability to repay the SBA loan.”
- **Collateral:** None required for loans up to \$25,000; above that amount borrowers must pledge it (business and personal)

# EIDL

<https://covid19relief.sba.gov>

*Have your last tax return, monthly P&L from February 1, 2019 to January 31, 2020, your banking information (routing number and account where you want funds)*

Once submitted: [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov)



# EIDL

- Filing Your Application – Insights

- Reasons for Decline: Incomplete, no signature, don't have all partners listed or submitting their respective forms
- Bad Credit is still bad credit (620 seems to be lowest acceptable, *right now*)
- Common Pitfalls by Document
  - 4506T: must sign and date
  - Tax returns: sign and date, provide all schedules
  - Schedule of Liabilities (Form 2202): sign and date, fill in every box,
  - Personal Financial Statement (Form 413): who is on form, “round” figures
  - Form 1368: the importance of a detailed narrative

# EIDL

- What happens after I submit?
    - Application gets assigned to a loan processor
      - They check for eligibility and completeness
      - They will then call you to set up an interview up to 3 times
        - Have your application and all supporting materials available during the call
      - If approved, case manager assigned
        - Need to say that you will accept and willing to sign
          - Note: you can take a lower amount if you wish
        - Loan Docs sent -- you review and sign
      - Disbursement in tranches (check this again with your loan processor)
- period before first payment due (check this again)



# THANK YOU



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