AGENDA

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CARES Act/Paycheck Protection Program

What You Need To Know

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Purpose

- The purpose of the Paycheck Protection Program is to keep small and mid-size businesses operational through the COVID-19 pandemic by providing them with resources to retain employees and pay other basic operating expenses in the form of forgivable loans.
Eligibility

- Businesses with up to 500 employees.
- Businesses in the accommodation and food services industries with more than one physical location but no more than 500 employees at each location.
- Nonprofit organizations.
- Eligible independent contractors and sole proprietors.
Maximum Borrowing

- Borrowers can borrow 2.5 times their average monthly payroll expenses over the prior 12 months, up to $10 million.
- Payroll is defined as wages, including compensation to employees; payments for vacation, parental, family, medical or sick leave; severance payments; payments required for group health care benefits (including insurance premiums), retirement benefits, and state and local employment taxes.
  - For purposes of calculating the maximum borrowing amount, payroll for each employee is capped at $100,000
Forgiveness

- Loan forgiveness occurs for amounts spent on the following categories in the 8-week period following the origination of the loan:
  - Payroll costs;
  - Rent;
  - Utilities; and
  - Interest payments on any mortgage obligations or other debt obligations incurred before February 15, 2020 (but not any payments or prepayments of principal).
Reductions to Loan Forgiveness

- **Reductions in FTE**: The amount of loan forgiveness will be reduced if the employer reduces the number of full-time equivalent employees (FTEs) in the 8-week period after the origination of the loan as compared to period described below.
  
  - Applicable period for calculating FTEs is the average number from either (A) February 15, 2019 to June 30, 2019 or (B) January 1, 2020 to February 29, 2020.
  
  - Average number of FTEs is determined by calculating the average number of FTEs for each pay period falling within a month.

- **Reductions in Payroll**: If the employer reduces the pay of any employee making less than $100,000 by more than 25% from the level of pay in effect as of the last complete calendar quarter
  
  - No limit to amount employer can reduce pay of employees who make over $100,000.
Benefits of Rehiring

- Employers who re-hire workers previously laid off as a result of the COVID-19 crisis will not be penalized for having a reduced workforce for the beginning of the relevant period.
  - If, during the period from February 15, 2020 to April 26, 2020, there is a reduction in the number of FTEs, there will not be a penalty as long as the total number of FTEs as of June 30, 2020 is equal to the number of FTEs as of February 15, 2020.
  - Example: Company A has 100 employees as of February 15, 2020, but it laid off 50 employees on April 1, 2020. If Company A has at least 100 employees as of June 30, 2020, there will be no penalty regarding the amount of loan forgiveness.
Repairing Reductions in Payroll

- Employers will not be penalized for the reduction of employees’ salaries if the employer increases the salaries of such employees to their original amount by June 30, 2020.
  - If, during the period from February 15, 2020 to April 26, 2020, there is a reduction in the salaries of employees, there will not be a penalty as long as the salaries of those employees as of June 30, 2020 is equal to salary of such employee as of February 15, 2020.
  - Example: On February 14, 2020, Company A decreased the salaries of employees making $75,000 to $50,000. If Company A increases the salaries of those employees back to $75,000 by June 30, 2020, there will be no penalty regarding the amount of loan forgiveness.

- Keep in mind that this possible reduction in loan forgiveness only applies to employees who make less than $100,000 per year.
Basic Loan Terms

- Loans will be available through SBA and Treasury approved banks, credit unions, and some nonbank lenders.
- Unsecured.
- No personal guarantee required.
- No collateral needs to be pledged.
- No charge to borrower.
- Payments of principal and interest will be deferred for at least 6 months, but not more than 1 year.
- Interest rates are capped at 4%.
- If a balance remains after the borrower receives loan forgiveness, the outstanding loan will have a maximum maturity date of 10 years after the application for loan forgiveness.
- Outstanding loan can be repaid at any time without penalty.
Question #1

What is the difference between a furlough and a layoff? How do these distinctions impact my agency’s ability to obtain loan forgiveness for some or all of a loan?
Question #2

What if I apply for an SBA Economic Injury Disaster Loan (EIDL)? Will this impact my ability to apply for one of the new 7(a) Paycheck Protection Program (PPP) loans?
Question #3

Can you explain how the 100K limit on employee compensation works? Does this mean I can’t get a loan at all to cover payroll costs because I have employees making more than 100K, or that I can only get up to 100K to cover those employees part of payroll costs?
Question #4

My agency currently has adequate liquidity to cover 3-4 months of expenses – but we’re not sure about beyond that. Should we just go ahead and apply for one of these PPP loans now even if we don’t need it just yet? Is there a timetable or end date by which we have to apply for one of these loans?
Question #5

My agency employs a lot of freelance workers on long-term contracts. I pay them monthly. Can I include their costs as part of my payroll costs?
Question #6

Can I still have my agency’s rent covered in forgiveness if my landlord defers or reduces my rent?
Question #7

If I suspend 401K matching for my employees, will that be deducted from my loan forgiveness?
Question #8

I’m trying to minimize the amount of unforgiven funds that would result in a future loan. I’ve estimated the amount our agency would likely spend in payroll during the eight-week spending period eligible for forgiveness. I’m concerned that future revenue reductions will necessitate reducing salary. Would this be likely to result in less forgiveness, since my current labor costs vs. prior year average trailing 12 months would be lower?
Question #9

Will business development expenses, i.e. pitching new and existing clients, be considered payroll expenses?
THANK YOU