

SBA LOANS FOR SMALL BUSINESSES INJURED BY COVID-19

The U.S. Small Business Administration is offering the opportunity to small business owners to apply for low-interest loans during the crisis. The loans are part of the SBA's Disaster Loan Assistance program, already in existence, that provides loans in disaster areas – such as from hurricanes and other weather events. COVID-19 has now generated a declaration of an Economic Injury Disaster in most regions of the U.S., including all of Illinois.

The SBA's online application is at <https://disasterloan.sba.gov/ela>. If you are interested in applying for a disaster loan, please be aware:

- > The website is slow due to heavy demand; if possible, try accessing the site at night and avoid using the Chrome browser.

- > The loans are limited. The maximum loan is \$2 million. Most approved loans will be far less than that. They may be used for payroll, debt service, accounts payable, and other business expenditures impacted by the disaster.

- > The interest rate set by the SBA is currently 3.75%.

- > The repayment term for the loans vary, depending on the borrower's financial condition and resources.

- > Although the loan is made to the business and is for the benefit of the business, it is genuinely the proprietor of the business who will need to qualify for, and be responsible to repay, the loan. Therefore, before beginning the process, take note of the following:

- ① The information you supply in the application must be true. There are civil and criminal penalties for submitting a loan application that contains false statements. In addition, the SBA is authorized to access your financial history – including the income tax returns of the business owner – in order to make a lending decision.

- ② Every person owning 20% or more of the business must supply his/her financial information in support of the application.

- ③ You will need to assemble a great deal of information, and it makes sense to do so before starting the application. You will need verifiable data on:

- ◇ your assets, including real estate, cash, stock holdings (including ownership in *other* companies, such as publicly-traded shares of

corporations), retirement accounts, life insurance, vehicles, money owed **to you**, among other things. You'll need to supply details as to each of these and that would include the mortgage balance and payments on real estate, for example.

◇ your liabilities, including details on amounts owed for taxes, on other loans to you or guaranteed by you, auto loans, and credit cards, among other things.

◇ your income, not just from the business applying for the loan, but from all sources, such as investments.

◇ the monthly sales and expenses of the business for the three years prior to the COVID-19 disaster. You will also want to provide an estimate of what they might be in the near future, given the economic disaster.

◇ the balance sheet of the business, with details on its assets and liabilities.

④ The SBA is not required, of course, to lend (or guaranty a bank loan) to every small business that applies for one. After you apply, the SBA may request additional information from you, request that the loan be secured (such as by a mortgage on your home), or decline the application. Therefore, it is wise to apply only for the amount of credit you reasonably believe you will need for the survival of the business in this crisis.

This program, which was introduced prior to the CARES Act (discussed on our website at https://www.momkus.com/uploads/1/3/0/3/130307077/the_cares_acts_impact_on_business_es.pdf) is still in place, but loans to small businesses have been significantly enhanced by the much larger CARES Act benefits. If small business obtained a loan under the emergency declaration SBA program, it can now be refinanced under the CARES Act.

Applying for an SBA loan can be cumbersome – particularly in the midst of an economic disaster. Please feel free to contact your Momkus LLC attorney with questions or concerns. Our office is operating at 100% and we've been designated as an "essential service" during the crisis; your calls and emails will receive prompt attention, even if we can't personally shake your hand.