

**UPDATED 4/4/2020 (Updated sections are in red)**

First and foremost, from all of us at Element 22 Commercial Group, we hope you, your families, colleagues, and communities are staying safe and healthy as we go through this crisis together.

We have been receiving an unprecedented amount of calls and emails from our Credit Union and business owner clients asking for additional information regarding the \$2.2T Coronavirus Aid, Relief, and Economic Security (CARES) Act, stimulus bill enacted Friday. We have been researching various industry and government publications with their take on the program(s) and have assembled the below to assist everyone. Also, at the end of this communication are links for additional information. We will continue to update you as we learn more.

THIS IS VERY IMPORTANT! It is our recommendation that our financial institution clients reach out to their existing MBL/commercial loan members or engage with Element 22 Commercial Group to do so, and touch base with them. We would recommend you begin with your largest loans and worst risk rated loans and go from there. Document the conversations you have with them in the form of a memo to the file. This will be important to show regulators you are on top of your portfolio. Understand the borrower's current situation. In the memo, include a summary of your assessment of the business, collateral, cash flow, any next steps needed, and a follow-up date if necessary. Some of the minimal questions the memo should answer include:

- How much cash do they have on hand?
- Are they still open?
- How do they see the COVID-19 situation impacting them?
- Will they be able to make their payments?
- Is the collateral still enough to cover the loan? Would additional steps be needed to ensure accurate and appropriate valuation?
- Should you begin discussions of deferment, forbearance, call the loan due, or liquidation?
- Should the risk rating be changed based on the information you uncover?
- Should you reserve more against the loan?

Element 22 Commercial Group is happy to help with this and with other questions you may have as you read through the remained of this document.

**PLEASE NOTE THAT ALTHOUGH THE LEGISLATION IS SIGNED, THE SBA HAS 30 DAYS TO RELEASE THE FINAL RULINGS/GUIDELINES ON THE PROGRAM SO EVERYTHING IS SUBJECT TO CHANGE. As of Saturday April 4th, the program is accepting applications but there is still uncertainty around the closing, forgiveness and repurchase process. Some financial institutions aren't going to move forward until this is all cleared up whereas others are moving forward to the extent they can right now with applications and submissions.**

There are basically 4 programs that impact Small Businesses as it relates to the CARES Act, which include, Economic Injury Disaster Loans (EIDL), Economic Injury Disaster Loan Advances (also referred to as Economic Injury Disaster Grants (EIDG)), Paycheck Protection Program (PPP), and the Small Business Debt Relief. Additionally, the State of Michigan has created Strategic Fund Aid to assist small businesses within the state.

- **Economic Injury Disaster Loan (EIDL)**

- Loans up to \$2,000,000 with a fixed interest rate up to 3.75% for businesses and 2.75% for private non-profits. Loan term up to 30 years.
- The loans are for expenses that could have been met had the disaster not occurred, including payroll and other operating expenses.
- May still apply for a Paycheck Protection Program (PPP) loan or refinance into a PPP loan but the requested loan amount would be reduced by the \$10,000 EIDG and the PPP and EIDL for the same purposes.
- Additional information on EIDLs- <https://www.sba.gov/disaster-assistance/coronavirus-covid-19>
- Apply directly through the SBA disaster website- <https://covid19relief.sba.gov/#/>

- **Economic Injury Disaster Loan Advance (Also referred to as Economic Injury Disaster Grants (EIDG))**

- Part of the EIDL process
- \$10 billion in funding for an advance of \$10,000 within three days to small businesses and nonprofits that apply for and SBA Economic Injury Disaster Loan (EIDL)
- THIS GRANT DOES NOT NEED TO BE PAID BACK even if the EIDL is denied.
- May be used to provide sick leave to employees, maintain payroll, meet increased production costs due to supply changing disruptions, or pay business obligations, including debts, rent and mortgage payments.
- Applied for as part of the EIDL process website- <https://covid19relief.sba.gov/#/>

- **Paycheck Protection Program (PPP)**

- Provides cash-flow assistance through 100% federally guaranteed loans to employers who maintain their payroll during the emergency for up to 8 weeks of payroll expenses
- If employers maintain their payroll, the loan may be forgiven
- No SBA fees, at least 6 months of deferral with up to a year
- General maximum loan size = the lesser of \$10,000,000 or 2.5x the business's average monthly payroll costs between 2/15/2019 and 6/30/2019 plus the outstanding amount of an SBA disaster loan made between after 1/31/20 but before the program end date for covered loans.
- Can be used to refinance an outstanding EIDL as well, although this portion may not be eligible for debt forgiveness
- No collateral or personal guarantees required (more details are needed)
- Lenders will be reimbursed processing costs ranging between 1% and 5% depending on the loan amount

- Eligible payroll expenses include:
  - Compensation (salary, wage, commission, or similar compensation, payment of cash tip or equivalent) **Any Federal related payroll expenses (Social Security, Medicare or FUTA) are NOT eligible**
  - Payment for vacation, parental, family, medical, or sick leave
  - Allowance for dismissal or separation
  - Group health care benefits, including insurance premiums
  - Payment of any retirement benefit
  - Payment of State or Local tax assessment on the compensation of employees
- Ineligible payroll expenses:
  - Employee/owner compensation over \$100,000/year
  - Compensation of employees whose residence is outside the U.S
  - **Any Federal related payroll expenses (Social Security, Medicare or FUTA) are NOT eligible**
  - Other unique criteria are also applicable
- Additional Eligible use of proceeds
  - Payroll as noted above- **Any Federal related payroll expenses (Social Security, Medicare or FUTA) are NOT eligible**
  - Costs related to group health care benefits, insurance premiums and paid sick, medical, family leave
  - Employee salaries, commissions or similar (exclusions apply)
  - Payments of interest on any mortgage obligation (may not prepay or reduce any principal balance on any obligation with loan proceeds)
  - Rent (including rent under a lease agreement)
  - Utilities
  - Interest on any other debt obligation incurred before the covered period of February 15, 2020
- Loan terms:
  - **For amounts not forgiven, 2-year term with an interest rate of 1%, \$0 loan fees, no prepayment fee, and lender application fees will be capped by the SBA**
- Determination of forgiveness amounts:
  - Forgiveness on a covered loan is equal to the sum of the following payroll costs incurred **8-weeks post loan closing** period compared to the previous year or time period proportionate to maintaining employees and wages (excluding compensation over \$100,000)
  - Payroll costs **plus** any payment of interest on any covered mortgage obligation **(incurred prior to February 15, 2020)**, (not including any prepayment or payment of principal on a covered mortgage obligation) **plus** any payment on any covered rent obligation **(incurred prior to February 15, 2020)** **plus** any utility payment **(in service prior to February 15, 2020)**
- How to apply for forgiveness on a PPP loan:
  - Documentation verifying all the above will be submitted to the lender for forgiveness and certify that the documentation provided is true and in

accordance with the program. **Element 22 Commercial Group has the checklists and Fact Sheets on the program on our home page [www.element22cg.com](http://www.element22cg.com)**

- Where to apply for a PPP loan
  - All current SBA 7(a) lenders are eligible to facilitate PPP loans. The Department of Treasury will also be in charge of authorizing new lenders to meet the needs of small businesses. **We have yet to see guidance on this.**
  - **Element 22 Commercial Group has teamed up with direct lenders for Credit Union and Banks interested in housing the loan on their balance sheet or other national lenders if the financial institution isn't interested in holding the loan on their balance sheet but would like to refer a borrower to Element 22 Commercial Group.**
  
- **Small Business Debt Relief**
  - SBA will cover all loan payments on certain non-disaster 7(a), 504, and microloans for 6 months. This will include principal, interest, and fees for six months.
    - This will also be available for new borrowers who take out loans within six months of the President signing the bill into law.
    - This does not include a PPP loan
    - The SBA is directed to begin covering these payments within 30 days but we are waiting on the details of how this will be handled
  
- **State of Michigan Strategic Fund Aid**
  - The Michigan Small Business Relief grants are administered by 15 local and nonprofit economic development organizations (EDO). To apply click the “Michigan Small Business Relief Program” link below and then find the appropriate EDO for your county.
  - [Michigan Small Business Relief Program](#)
  - [Michigan Small Business Relief Program Fact Sheet](#)
  - [Michigan Strategic Fund Approves \\$20M in aid for small business hurt by coronavirus](#)
  - [Resources for Michigan Businesses During COVID-19](#)
  
- **Questions we still have:**
  - When will the SBA guidelines, process, procedures be released from the SBA? **We are still waiting on several pieces of guidance and processes/procedures from the SBA**
  - What will be the process for the PPP loans? Forms, submission, funding, etc.? **We are still waiting on several pieces of guidance and processes/procedures from the SBA**
  - When will the payments begin to be covered for SBA loans for the 6 months period?
  - How do non-SBA lenders apply with the Treasury Department to be able to offer PPP loans?
  - Can you sell the loans in the secondary market? **Yes you can sell PPP loans. But, at this time, we don't think there will be a market appetite for these given their current structure/pricing**
  - Will the SBA have the capacity to process these loans?

- How long will this new program delay the approval of standard 7(a) or 504 loans?
- Are personal guarantees required on all loans?
- If the loan goes bad what is the process to collect on the guarantee?

- **Additional Links**

- [Credit Unions Respond to \\$2T Economic Package as congress Considers Another Big Bill](#)
- [US Chamber of Commerce Coronavirus Emergency Loans Small Business Guide](#)
- [The Small Business Owner's Guide to the CARES Act](#)