

Corporate Alert: 10 FAQs - SBA Economic Injury Disaster Loans

The COVID-19 or coronavirus pandemic that is currently sweeping the nation is having devastating consequences on small businesses. Due to the mandated government closures and reduced revenue as a result of a “stay at home” society, small business owners may need to rely on various sources of emergency funds to meet working capital expenditures and keep their operations afloat.

Currently, Congress has pledged billions of dollars to the Small Business Administration’s (SBA) Disaster Loan Program to aid businesses who have suffered an economic injury as a result of COVID-19. While the SBA provides these loans in all disasters, they are more commonly used for natural disasters including hurricanes, tornados, etc. This is one of the first times that the loans are available exclusively for economic injury rather than physical damage.

We have compiled a list of “Frequently Asked Questions” about the SBA Economic Injury Disaster Loan (EIDL) program:

Q: Do I qualify for an SBA Economic Injury Disaster Loan?

A: In order to qualify you must meet 4 criteria: (i) meet the definition of a small business (varies by industry); (ii) have a satisfactory credit history; (iii) be able to repay loan; and (iv) suffered a substantial economic injury as a result of the coronavirus pandemic.

Q: What if I own several businesses can I only get 1 loan?

A: No, each entity may qualify for a separate SBA disaster loan.

Q: What can loan proceeds be used for?

A: Loan proceeds may be used for working capital expenses that are necessary to support the business until the resumption of normal business operations. This includes fixed debts, rent or lease payments, employee wages, utilities, etc. Loan proceeds may NOT be used to refinance old indebtedness, repair physical damage, pay dividends to shareholders, and pay tax penalties.

Q: What are the terms of the loan?

A: Maximum loan amount is \$2,000,000 but is based on the actual amount of economic injury. The maximum term is 30 years. The interest rate is 3.75%.

Q: What is required to guarantee the loan?

A: The SBA requires collateral for any loan greater than \$25,000. While real estate is preferred and the SBA will take subordinated or junior positions, the SBA will consider all types of collateral. It is important to discuss the specific collateral with your other lenders as this may create an issue under your current loan or debt arrangements.

Q: My business is suffering as a result of coronavirus; how will I be able to repay the loan?

A: The first payment is not due until one year from the date of execution of the promissory note. Currently, you could expect to make your first payment in April or May of 2021.

Q: When is the application deadline?

A: The current application date is December 16, 2020 but may be extended.

Q: What documents do I need to provide in order to apply?

A: (i) SBA Form 5; (ii) IRS Form 4506-T; (iii) a copy of your business's most recent tax return including all schedules; (iv) SBA Form 413; and (v) SBA Form 2202. Additional financial information such as a current P&L statement or balance sheet may be required.

Q: Where should I apply?

A: Applications may be submitted online at <https://disasterloan.sba.gov/ela/>; paper applications will be accepted via mail.

Q: If my application is submitted, when can I expect to receive funds?

A: Currently, the time from application submission to disbursement of funds is approximately 30-45 days.

Businesses and sole proprietors alike are facing unprecedented challenges during the COVID-19 pandemic.