

Q&A on CARES Act (Stimulus #3) and Nonprofit Organizations

In less than two months' time, Congress has negotiated and passed three emergency stimulus bills to respond to the public health crisis that is COVID-19 (coronavirus). These packages have totaled in the trillions of dollars, two trillion of which made up the most recent bill, the CARES Act.

Under the CARES Act for the first time, nonprofit organizations are eligible to receive some Small Business Administration (SBA) loans and assistance. Below are some common questions and guidance on the options nonprofits may consider.

PLEASE NOTE: Things are moving rapidly and a lot of information is being shared piecemeal. We recommend using this resource to guide but not instruct nonprofits. The SBA has a page dedicated to COVID-19 with summaries of their loan and assistance programs. The U.S. Treasury has also posted information on these loan opportunities.

In addition to these resources, we also encourage organizations seek guidance from your audit firm and/or legal counsel as they can be an important resource in navigating these opportunities.

What kind of nonprofit organizations are eligible to apply for emergency funding assistance through the Small Business Administration (SBA)?

Any 501(c)3 organization with fewer than 500 employees (this includes full-time and part-time staff).

*Note: this is the first time nonprofits have been eligible for SBA loans, so some entities have been inaccurately noting nonprofits are exempt. Thankfully, this is not the case. Nonprofits **are** eligible.*

How much money are nonprofits with fewer than 500 employees eligible to receive?

There are two SBA provisions provided in the CARES Act:

- ▶ Payroll Protection Program: eligible applicants may receive up to 2.5 times the organization's average payroll or a maximum of \$10 million, whichever is smaller. This application process will be with an SBA-approved bank or other financial institution. Find a local bank [here](#).
 - Loan applications will open starting on April 3, 2020.
 - You may hear this loan referred to as an SBA 7(a) loan.
 - SBA will likely expand their approved banks in the coming weeks to better meet demand.

- ▶ Emergency Economic Injury Grants: advances of up to \$10,000 that would be delivered within approximately 3 business days. This application process is directly through the SBA.
 - These advances will be fully forgiven if the organization's Payroll Protection Program (SBA 7(a)) application is denied.
 - If the SBA 7(a) loan is approved, the advance will be added to it (ie, if the organization is approved for \$50,000 in the 7(a) loan, and \$10,000 through the Economic Injury Grant, they will ultimately receive a check for \$40,000 for a combined total of \$50,000.)

What can these emergency loans be used for?

Payroll expenses (a cap of \$100K per employee), mortgage interest, rent, utilities, health insurance premiums, etc.

What is the period covered by these emergency loans?

The loan period for these SBA loans is retroactive to February 15 and ends on June 30, 2020.

How much interest will be charged on these loans and when are they due?

The Payroll Protection Program has a 0.50% fixed rate. All payments are deferred for 6 months but interest will accrue during this time.

This loan is due in 2 years. No prepayment penalties or fees will be assessed.

No collateral is required to apply for these loans and no personal guarantees are necessary (the U.S. Government is guaranteeing these loans to lenders).

Will these loans be forgiven (in whole or in part)?

Nonprofits are eligible for forgiveness for the amount of their loans spent during the first 8 weeks of their loan period on approved expenses (payroll, mortgage interest, rent, utilities, etc.).

- ▶ Forgiveness will only be extended if no staff are laid off and no salaries are reduced by more than 25% for staff making less than \$100,000 during the loan period.
- ▶ If the applicant rehires employees laid off between February 15-April 26 before June 30, forgiveness is still possible.
- ▶ Applicants will submit a request letter for forgiveness to their SBA-approved lender providing documentation that verifies all forgiveness requirements. The lender must make a decision on the forgiveness request within 60 days.

What do I need to certify as part of my application? (From [this](#) summary)

- ▶ The current public health crisis makes the loan necessary to support ongoing operations.
- ▶ Organization will use funds to retain workers and maintain payroll, or make mortgage, lease, and utility payments.
- ▶ Organization has not received another loan under this program.
- ▶ Organization will provide lender documentation verifying the number of full-time equivalent employees on the payroll and dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the 8 weeks after receiving loan.
- ▶ Loan forgiveness will be provided to the organization for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities.
 - “Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.”
- ▶ Organization must assert all the information provided in the application and supporting documentation is true and accurate. “Knowingly making a false statement to get a loan under this program is punishable by law.”
- ▶ Organization must acknowledge that the lender will calculate the eligible loan amount using the tax documents provided. The organization must affirm that the tax documents are identical to those submitted to the IRS. The lender will supply the SBA will provided tax information.