

Forgivable Loans for Child Care Providers through the CARES Act

The bipartisan Coronavirus Aid, Relief, and Economic Security (CARES) Act—which became law on March 27—is the third stimulus package in a series of bills designed to mitigate the harm of our current public health and economic crisis. Child care providers—who are predominantly women, disproportionately women of color, and already underpaid¹—are feeling the strain acutely as they scramble to serve children of essential workers, remain viable through closures, and support their staff and families.

The CARES Act includes a number of provisions that offer initial support for the child care industry, including \$3.5 billion for the Child Care and Development Block Grant, \$750 million for Head Start, and major expansions in unemployment compensation.² The CARES Act also dedicates significant resources to the Small Business Administration (SBA) to help small businesses, nonprofit organizations, and self-employed individuals stay afloat and to incentivize them to retain their workers.

Eligible child care programs should quickly take advantage of SBA relief while limited funds are available. This fact sheet provides a basic overview of the SBA's forgivable loans that could offer some relief to child care programs—and also demonstrates why loans are insufficient to solve the problem for providers and families.

Forgivable small business loans can provide short-term relief, but child care providers urgently need more support

Forgivable SBA loans can offer temporary relief to some child care programs—particularly those that rely heavily on tuition and fees from parents—and CLASP encourages eligible programs to quickly take advantage of these resources if they are able to do so. However, it's also important to recognize the limitations of these loans as a form of long-term relief:

- **The funds are first come, first serve**, meaning not every business, nonprofit organization, or self-employed individual eligible for a grant or loan will receive one. Navigating the loan process may be particularly challenging for nonprofit or self-employed providers that are using SBA assistance for the first time.
- **The forgivable loans are only intended to cover roughly two months of operating expenses.** Early in this crisis, a survey of more than 6,000 child care providers found that nearly half predicted they could not survive a closure of more than two weeks without support.³ Another 16 percent predicted they could not survive for more than a month. As of the publication of this fact sheet, many communities are less than a month into the crisis and already at risk of shuttering—if closures haven't already begun. With no end in sight, it is already apparent that programs need additional support.
- **The loan funds may temporarily keep providers afloat, but don't address the needs of children and families.** Child care providers are an integral part of families' lives. For many families—particularly those who are economically or socially marginalized—child care programs don't just support children's learning and development while their parents work or go to school. They also ensure access to healthy meals, provide or support families' access to health and mental health services, and connect families to resources in their community. As this crisis continues, parents and children need these resources more than ever. SBA loans won't allow programs to meet these needs in our current environment of social distancing—they weren't designed to.

What resources are available through the Small Business Administration?

Emergency cash advances through the SBA's Emergency Economic Injury Disaster Loan (EIDL) program. Eligible child care programs can request an advance of up to \$10,000 to help maintain payroll and make rent or mortgage payments during temporary closures or losses in revenue. Funds will be disbursed within three days of a successful application and will not have to be repaid, effectively turning them into a grant. EIDL applications are currently being accepted at <https://covid19relief.sba.gov/>.

Forgivable loans through the Paycheck Protection Program. The CARES Act also establishes a new SBA loan called the Paycheck Protection Program (PPP). PPP loans will provide eligible child care providers with a loan of up to roughly 2.5 times an average month's worth of total payments for certain payroll costs, not to exceed \$10 million. Employers can use loans to cover wages and salaries, costs related to group health care benefits, mortgage interest payments, rent, utilities, and interest on other debt incurred before March 1, 2020. Loans can be fully forgiven if certain conditions are met (see below). Eligible child care providers can apply for PPP loans through participating banks and credit unions starting on April 3, 2020. Applications will be accepted until June 30, 2020.

Who is eligible to apply?

Nonprofit (specifically with 501(c)(3) or 501(c)(19) status) and for-profit child care programs with 500 or fewer employees (defined as anyone employed on a full-time, part-time, or other basis) are potentially eligible for relief. This would apply to both center- and home-based programs. Self-employed family child care providers are also potentially eligible, but they must submit documentation (potentially including payroll tax filings and income and expenses) to verify their eligibility.

Importantly, child care providers do not need to provide collateral or a personal guarantee to apply—they only need to certify that the loan is necessary to support their ongoing operations and that they will use the funds appropriately.

How can providers maximize the amount of their PPP loan that is forgiven?

PPP loans are intended to help small businesses retain workers during periods of temporary closures or significant slowdowns. Child care programs can take full advantage of the loan forgiveness available by:

- **Spending funds on qualifying forgivable expenses in the first 8 weeks of the loan period**, including payroll, mortgage interest payments, rent, or utilities. The SBA requires that at least 75 percent of the forgiven amount be used for payroll.
- **Maintaining (or quickly rehiring) employees and maintaining wages.** The amount forgiven will be reduced if employers lay off staff and/or reduce staff wages by more than 25 percent, unless cuts are promptly eliminated.
- **Keeping tabs on all forms of relief available.** If programs receive an EIDL cash advance and a PPP loan, the amount forgiven will be reduced by the value of the cash advance.
- **Documenting how loan funds are spent.** Programs will have to show appropriate documentation to verify that they maintained their staff and wages and to verify any payments made on mortgage, rent, or utilities.

Any remaining portion of the loan not immediately forgiven is automatically turned into a 2-year loan with an interest rate of 1 percent. Loan payments will be deferred for 6 months, during which time interest will accrue.

Conclusion

One-time, short-term loans—even in combination with additional CARES Act supports more directly related to child care—will not address the full scope and scale of the challenge at hand. With more than 22 million working families across the country, our nation's economic recovery in the aftermath of this crisis will depend on a child care system that is able to bounce back. Child care providers and families need immediate relief with as few barriers as possible—and this is best accomplished through a significant and direct investment in child care. CLASP calls on Congress to include \$50 billion for the child care system in the next coronavirus package. Our nation's future depends on it.

Additional resources on SBA loans in the CARES Act

The Small Business Administration issued an interim final rule on the Paycheck Protection Program on April 2, available at <https://home.treasury.gov/system/files/136/PPP--IFRN%20FINAL.pdf>. Additional guidance on loan forgiveness is forthcoming. See the interim final rule or the resources below for additional details on SBA loans in the CARES Act:

- U.S. Department of Treasury, *Paycheck Protection Program (PPP) Information Sheet: Borrowers*, <https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>.
- Small Business Administration, "Coronavirus (COVID-19): Small Business Guidance & Loan Resources," last accessed April 2, 2020, <https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>.
- Bipartisan Policy Center and Center on Economic Development, *U.S. Small Business Administration (SBA) Support The Coronavirus Aid, Relief, and Economic Security Act (CARES Act)*, March 26, 2020, <https://bipartisanpolicy.org/explainer/u-s-small-business-administration-sba-support-the-coronavirus-aid-relief-and-economic-security-act-cares-act/>.
- First Five Years Fund, *Child Care & COVID-19 Economic Relief: Federal Legislation Assisting Children, Families, and Child Care Providers*, April 2, 2020, <https://www.ffyf.org/relief-for-child-care-providers-included-in-the-cares-act/>.
- U.S. Senate Committee on Small Business & Entrepreneurship, *The Small Business Owner's Guide to the CARES Act*, last accessed April 2, 2020, <https://irp-cdn.multiscreensite.com/45d2c930/files/uploaded/Small%20Business%20Owner%E2%80%99s%20Guide%20to%20the%20CARES%20Act%20%5Bfinal%5D.pdf>.

Endnotes

¹ Marcy Whitebook, Caitlin McLean, Lea J.E. Austin, and Bethany Edwards, *The Early Childhood Workforce Index 2018*, Center for the Study of Child Care Employment, 2018, <https://cscce.berkeley.edu/early-childhood-workforce-2018-index/>.

² Christine Johnson-Staub, *COVID-19 and State Child Care Assistance Programs*, April 2, 2020, CLASP, <https://www.clasp.org/publications/fact-sheet/covid-19-and-state-child-care-assistance-programs>; Stephanie Schmit, *\$3.5 Billion for Child Care in Coronavirus Package is Not Enough: How States Will Fare*, March 26, 2020, CLASP, <https://www.clasp.org/publications/fact-sheet/35-billion-child-care-coronavirus-package-not-enough-how-states-will-fare>.

³ The National Association for the Education of Young Children, *Child Care in Crisis: Understanding the Effects of the Coronavirus Pandemic*, March 17, 2020, https://www.naeyc.org/sites/default/files/globally-shared/downloads/PDFs/our-work/public-policy-advocacy/effects_of_coronavirus_on_child_care.final.pdf.