

**What is the Paycheck Protection Program?**

The Paycheck Protection Program isa [Small Business Association (SBA)](https://www.sba.gov/) loan program specifically designed tohelp small businesses continue to make payroll at their staff’s current pay rate, as well as cover key expenses that keep the lights on (think rent and utilities). Any loan funds used for these express purposes during the loan’s eight-week period will be eligible to be forgiven: in other words, if a small business uses the loan as it’s intended, they will likely not have to pay back a penny.

By driving cash into threatened small businesses, the Paycheck Protection Program directly addresses what 70% of small businesses cite as their primary business challenge: cash flow management ([Forbes](https://www.forbes.com/sites/allbusiness/2019/04/21/cash-flow-challenges-facing-small-business-owners/#786e270c3656)). About half of small businesses don’t have enough cash on-hand to survive more than 27 days without incoming revenue, and about 25% can only make it 13 days or less with no revenue ([JP Morgan](https://www.jpmorganchase.com/corporate/institute/document/jpmc-institute-small-business-report.pdf)). With a PPP loan to cover about two months’ worth of most costly expenses (payroll and rent), small businesses will be able to stretch out their existing cash reserves much longer. Hopefully long enough for this crisis to end and for businesses to re-open.

In the meantime, with this loan, small businesses should be able to hold onto their existing team, preserve their retail or office space, and maintain their current utilities providers. This can provide small business owners and employees the opportunity to collaborate to find a way to pivot the business to find alternate revenue sources during COVID-19; and once the crisis ends, small business will still have their fully-trained team on-hand to ramp back up to their usual business model and capacity.

If laying off all your employees is like taking the wheels off a bike so it can no longer run, think of the PPP as enabling small businesses to put on training wheels. You can keep going, though perhaps not as quickly. If you hit a bump, you might not fall totally over. But the most important thing is that you keep moving.

**Loan Details and Forgiveness**

The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (due to likely high subscription, at least 75% of the forgiven amount must have been used for payroll). Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels.  Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

This loan has a maturity of 2 years and an interest rate of 1%.

If you wish to begin preparing your application, you can download a copy of the [PPP borrower application form](https://www.sba.gov/document/sba-form--paycheck-protection-program-borrower-application-form) to see the information that will be requested from you when you apply with a lender.

**How can the Paycheck Protection Program help your small business?**

Now that we’ve covered the goals and potential impact of this program, let’s take a closer look at the details. I’ll answer common questions that small business owners likely have about the PPP, including how to determine if you’re eligible, how to apply, how the PPP compares to SBA’s EIDL loans, and more.

**How do I know if I’m eligible?**

You should be eligible to apply if:

* You’re a small business, 501(c)(3) nonprofit, or a 501(c)(19) Veterans Organization based in the United States.
* You have fewer than 500 employees.
* You’re self-employed or a sole proprietor.
* Your business has been adversely impacted by COVID-19, and the current uncertainty makes it difficult to run your business.
* You need this loan to keep your business afloat.
* Your business was fully operational on February 15, 2020, with employees on payroll.

**How much can I borrow through PPP?**

* If you’re a small business: You can receive a loan for [up to 2.5x your average monthly payroll costs for the previous 12 months (up to $10 million total)](https://www.uschamber.com/sites/default/files/023595_comm_corona_virus_smallbiz_loan_final_revised.pdf).
* If you’re a sole proprietor or are self-employed (e.g., you run your own one-person marketing agency):Although you don’t have payroll costs in the same way, the loan amount you’re eligible for is still calculated based on your payroll costs for the past 12 months; you full loan amount may be up to $100,000 (the maximum amount small businesses are allowed to claim as payroll costs per employee). See the “What counts as payroll costs” section of this [US Treasury resource](https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf) for more details. *Note: This information is up to date as of 4/1/20. We will update this section as more details for sole proprietors and self-employed individuals are clarified. If you have questions, we recommend speaking to an attorney.*

**What is the loan period?**

The loan period lasts for eight weeks from the date of origination (the date the borrower officially receives the loan). Interest payments will be deferred for 6 months. The loan will be due in 2 years, and there’s no penalty for pre-paying ([US Treasury](https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf)).

**What can I use the loan money for?**

The loan is designed to help keep businesses running and people employed, so potential borrowers should plan to use the funds for the following expenses during the 8-week loan period:

* **Paying staff**: If you’ve had to lay people off, their pay will not be included in the calculation of the loan amount. But if you hire them back after submitting your application, we believe you can use your loan monies to pay them.
* **Rent**, or interest on your mortgage principal. (You can’t use this for a principal payment.)
* **Utility payments**

Technically, up to 100% of the loan amount can be eligible for forgiveness, if spent on the above expenses during the eight-week loan period.However, the [U. S. Treasury](https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf) notes that you will be expected to spend at least 75% of any loan monies received on payroll; only 25% of the borrowed money can be spent on rent, mortgage, or utilities, if you want to apply for loan forgiveness. Note: If you lay off additional employees after applying for the loan, your amount of loan forgiveness will be impacted. See Page 5 of this [US Chamber of Commerce document](https://www.uschamber.com/sites/default/files/023595_comm_corona_virus_smallbiz_loan_final_revised.pdf) for more details.

**Is this different from the**[**SBA’s Economic Disaster Injury Loan**](https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources)**(EIDL)?**

The PPP [builds on the existing framework of the SBA’s 7(a) loan program for small businesses](https://www.inc.com/brit-morse/sba-loans-coronavirus-stimulus-package-cares-act.html). The Paycheck Protection Program loans will co-exist with the SBA’s Economic Disaster Injury Loans, so you’ll want to evaluate both programs to select which option, if either, is better suited for your business.

**Contact SMACNA St. Louis or the Small Business Administration for more information.**

**SMACNA St. Louis 314-427-7117 or kyle@smacnastlouis.org**