

COVID-19 Economic Injury Disaster Loans and Loan Advances

Articles, COVID 19: Answers to Business Challenges March 31, 2020

On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) into law. Section 1110 of the CARES Act makes several changes to the SBA's Economic Injury Disaster Loans Program by expanding its coverage and by making it easier for applicants to apply for relief. This article highlights some of the important changes.

What is the Economic Injury Disaster Loan Program?

The Economic Injury Disaster Loan program operates pursuant to Section 7(b) of the Small Business Act and provides low-interest, long-term loans to small businesses located in areas that are geographic disaster zones. Certain small businesses can apply for up to \$2 million in Disaster Loans. The loans may be used to pay fixed debts, payroll, accounts payable, and other bills that could have been paid had the disaster not occurred.

Under the CARES Act, Who Can Now Apply for an Economic Injury Disaster Loan?

In addition to small business concerns, private nonprofit organizations, and small agricultural cooperatives, the following entities are now eligible to apply for these Disaster Loans:

- a business with not more than 500 employees;
- any individual who operates under a sole proprietorship, with or without employees, or as an independent contractor;
- a cooperative with not more than 500 employees;
- an ESOP (employee stop ownership plan) with not more than 500 employees; and
- a tribal small business concern with not more than 500 employees.

How Does the CARES Act Change the SBA's Economic Injury Disaster Loans (EIDLs) Requirements?

With respect to EIDLs made in response to COVID-19 from January 31, 2020 to December 31, 2020, the following EIDL rules/requirements have been waived:

- Rules related to personal guarantees (on loans of not more than \$200,000);
- The requirement that the applicant be in business for one year (if the business was in operation on January 31, 2020);
- The requirement that the applicant be unable to acquire credit elsewhere.

In addition, the Administrator of the SBA may relax the approval methods during the covered period. Specifically, applicants can now be approved based solely on their credit score will not be required to submit a tax return.

What if Your Business Needs Money NOW?

If eligible (see above), an applicant may request an advance of an amount up to \$10,000 after submitting an application. The SBA will verify eligibility based on the applicant's self-certification of eligibility and provide the advance within three days of the application. The amount advanced may be used to:

- Provide paid sick leave to employees unable to work because of COVID-19;
- Maintain payroll to retain employees;

- Purchase materials that are no longer available from original supplier;
- Make rent or mortgage payments; and
- Repay obligations that cannot be met due to revenue loss.

Does Your Business have to Repay the Advance?

No, the applicant is not required to repay the advance, even if denied a loan.

Are There Any Geographic Restrictions?

No, in response to the COVID-19 pandemic, small business owners in all U.S. states, Washington D.C., and territories are eligible to apply for an Economic Injury Disaster Loan advance of up to \$10,000.

Can Your Business also Apply for a Forgivable Paycheck Protection Program Loan?

Yes, the Act recognizes that a business may receive an advance and still apply for a Paycheck Protection Program loan. However, if a business receives an advance and is subsequently approved for a Paycheck Protection Program Loan, the advance amount shall be reduced “from the loan forgiveness amount for a loan for payroll costs.”

How Much Money is Available Under this Program?

\$10,000,000,000 has been allocated.

How Do You Apply for the Loan?

To apply for the COVID-19 Economic Disaster Loan, complete the on-line application on the SBA’s website.

For additional information contact Christopher L. Voltz by phone (412-594-5580) or email.

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