DISASTER LOANS: Frequently Asked Questions

We have reviewed all of the questions that have been asked about disaster loans on our weekly webinars since March 19th. This document contains a summary list of questions asked during / after the webinar, and includes questions submitted directly to SBDC Business Advisors. Information below as of 19 April 2020.

Questions are organized by topic, but can easily be searched using Ctrl+F.

General Housekeeping, Contacting SBA, Agents
Eligibility
Counting FTE Employees
Calculating Average “Payroll Costs” (PPP)
$10,000 Advance (with EIDL Application)
Documentation Required (PPP & EIDL)
Sole Proprietors, Independent Contractors/1099s, and Self-Employed
Startup Businesses (less than one year)
Repayment, Forgiveness, & Uses of Funds

General Housekeeping, Contacting SBA, Agents

1. Where can I get a copy of the presentation?
   a. The recorded webinar, along with the presentation slides, is available to download at https://asbdc.ecenterdirect.com/events/8500.

2. Where can I get up to date guidance as it is released?
a. Our website, ASBDC.org, as well as our newsletter (enroll here);
b. The SBA website, in particular the FAQs and guidance (find it here);
c. The U.S. Treasury FAQ, which is updated every couple of days (find it here).

3. Where do I apply for these loan programs?
   a. Apply for the EIDL directly through the SBA at https://covid19relief.sba.gov/#/. This is the only place to apply for the EIDL, and the only way to request the (up to) $10,000 advance/grant.
   b. To apply for the PPP, you must submit an application and supporting documentation to your lender (unlike the EIDL, which is submitted directly to the SBA). Each lender has their own process and requirements. Most have an online application.

4. Can I edit my application after it has been submitted?
   a. If you wish to submit revisions to your EIDL application, you may do so by emailing the SBA with the business name and application number in the subject line. However, only do this if absolutely necessary, as it will likely slow your application process down.
   b. If you wish to revise your PPP application, you should contact your lender directly. You may be able to revise the application if it has not already been submitted for approval by the SBA. If it has been submitted, you will not be able to revise the application.

5. Tell me more about agents and agent fees.
   a. An agent may be an accountant, lawyer, consultant, independent loan packager, or other qualified individual who helps the borrower prepare the loan application. Agents will be paid by the lender out of the fees the lender receives from the SBA. Agents may not collect fees from the borrower or be paid out of the PPP loan proceeds. The total amount the agent may collect from the lender may not exceed:
      i. One (1) percent for loans of $350,000 or less;
      ii. 0.50 percent for loans of more than $350,000 and less than $2 million; and
      iii. 0.25 percent for loans of $2 million or more.
   b. Agents should negotiate fees with the lender and complete any required forms with the lender to ensure payment (typically an SBA Form 159 and/or a lender/agent contract agreement).

6. What if my lender is not accepting PPP applications? Where else can I apply?
a. Many lenders are only accepting applications from current customers. However, we are keeping a list of lenders that are accepting applications from non-customers here.

7. Is the funding for these programs expected to run out?
   a. Yes, it is. Congress allocated $349 billion to the PPP program, which was exhausted on April 16th. However, the program is expected to be reauthorized.

**Eligibility**

1. If I already have an SBA loan, am I still eligible?
   a. Yes, you are still eligible for both the EIDL and the PPP. These programs do not impact your SBA limit. Also, if you already have an SBA disaster loan for a different disaster, you can still apply for the EIDL.

2. Is eligibility impacted by personal credit?
   a. EIDL: While there is no stated minimum credit score, personal credit must be “acceptable to the SBA.” So far, we have not seen approvals where the credit score was below 600.
   b. PPP: The lender must certify that you were in business prior to February 15, 2020, and that you have payroll with documentation to support your application. You have to certify that you are not in bankruptcy and have not defaulted on a government-backed loan.

3. Is there a minimum # of employees you must have to apply for either of these programs?
   a. No. You can apply as a self-employed individual, as a sole proprietor with no employees, as a business with 1-500 employees, and in some cases as a business with more than 500 employees.

4. I own a rental property. Am I eligible for these programs?
   a. Yes, you are eligible for both. If the property is not held in an LLC, you should apply as a sole proprietor. If the property is held in an LLC, you should check the “Applicant is a business with not more than 500 employees” on the EIDL application and check the LLC box on the PPP application.

5. Are nonprofits eligible for the PPP?
   a. Only nonprofits organized as 501(c)(3) or 501(c)(19) are eligible for the PPP.

6. Are nonprofits eligible for the EIDL?
a. Private nonprofits are eligible to apply for the EIDL. The nonprofit must have a non-religious component to it in order to apply. For example, if a church has a daycare associated with it, the daycare can apply for the EIDL.

Counting FTE Employees

1. What constitutes a FTE employee?
   a. A full-time equivalent (FTE) employee is one that works 30 or more hours per week, on average.
   b. If you have two employees who work 15 hours per week each, you have one FTE employee.

2. Are part-time employees included in PPP?
   a. Yes, but they are combined to estimate the number of FTE jobs. For example, if you have 6 part-time employees working 20 hours per week, you have 3 FTE employees.
   b. If you have a mixture of full-time and part-time employees, you add them up to estimate the number of FTE jobs. For example, if you have 2 full-time employees and 6 part-time employees, you have \(2 + 3 = 5\) FTE employees.

3. Do I, as the owner, count as an employee?
   a. If you work in your business, then yes, you should include yourself when you count the number of employees. For example, if you have two FTE employees and you work in the business as well, there are 3 employees.

Calculating Average “Payroll Costs” (PPP)

1. As the owner of the business (which also has employees), do I include my salary, owner draw or distributions in the payroll costs?
   a. This is one of the most frequently asked questions, and lenders are taking different approaches to including owner draws in the payroll cost calculation. Our advice? Talk to your lender. If you have owner draws that can be supported by bank statements, and you have paid self-employment tax on these draws, you may be able to include them under payroll costs. Otherwise, your net income (Line 31 of Schedule C), which you pay self employment tax on, can be included in your payroll costs.
b. If you have been taking distributions or draws, but not paying self-employment tax on that money, you will not be able to include those distributions or draws under payroll costs.

c. If you pay yourself a salary, and you take a distribution, you will include the salary - not the distribution.

d. If you pay yourself with a W-2 (likely in an S-Corp), you can include your W-2 income under payroll costs.

2. When calculating the average payroll costs over 12 months, which 12 months do I use?

   a. You have a choice. You can use either 2019 (full-year), or the 12 months leading up to your application (i.e. April 1, 2019 - March 31, 2020).

   b. If your business has not been open for 12 months, you may use the average monthly payroll costs for the period January 1, 2020 through February 29, 2020.

   c. If your business is seasonal, you may use the average monthly payroll for the period between Feb 15, 2019 OR March 1, 2019 through June 30, 2019.

3. I have 1099 “employees” - should I include their wages in my payroll costs?

   a. NO. Payroll costs should not include money paid to 1099 contractors. 1099 workers can apply for the PPP on their own as independent contractors/sole proprietors. If your only payroll goes to 1099s, you would include only yourself on your application for the PPP.

4. What is included in “payroll costs”?

   a. For a business with employees, include all of the following:

   i. Compensation to employees (salary, wages, commissions or similar compensation, cash tips), with a limit of $100,000;

   ii. Payment for vacation, parental, family, medical, or sick leave;

   iii. Allowance for separation or dismissal;

   iv. Payment for provision of employee benefits consisting of group healthcare coverage, including insurance premiums;

   v. Payment of state and local taxes assessed on compensation of employees. (Note: The most common state/local tax assessed on the compensation of employees is unemployment taxes.)

   b. For a sole proprietor or independent contractor (no employees), include:

   i. Wage, commissions, income, or net earnings from self-employment or similar compensation.

5. Okay, we can include payments for employee benefits like health insurance. Does that include dental, vision, etc.?
a. Talk to your lender, but we are seeing lenders accept payments of dental and vision insurance premiums as part of “payroll costs.” HRA and/or HSA contributions are also included. This would also be included on IRS Form 940, Line 3, “Total Payments to all Employees.”

6. What is expressly NOT included under “payroll costs”?

a. Do NOT include the following:
   i. Any compensation of an employee whose residence is outside the U.S.
   ii. Federal employment taxes imposed/withheld between 2/15/2020 and 6/30/2020 (FICA, Railroad Retirement Tax, and income taxes required to be withheld from employees, i.e. taxes under Chapter 21, 22, or 24 of the IRS Code).

$10,000 Advance (with EIDL Application)

1. If we apply for and receive the $10,000 advance, is there a requirement to continue the loan process?

   a. There is no requirement to accept a loan if it is offered.

2. Do I have to apply for the EIDL in order to apply for the advance, or can I apply for the PPP only and get the advance?

   a. The only way to apply for the advance is to apply for the EIDL at https://covid19relief.sba.gov/#/.

3. I applied for the advance and haven't heard back. What do I do?

   a. Most of our clients have not heard back, but on Monday, April 13th, clients began receiving the advance as a direct deposit into their bank account. The timeline for the advance seems to be close to two weeks. The loan officer will check your personal credit score when reviewing the application. You may want to review your credit report to see if SBA has checked your credit; this may indicate that your application is being reviewed.

4. What can the advance be used for?

   a. The advance can be used for the same eligible working capital expenses that the EIDL can be used for (payments of rent, utilities, interest expense, payroll, and other working capital expenses).

5. Under what circumstances is the advance forgivable?
a. The advance is a grant. It is forgivable whether you are approved for the EIDL loan or not, but you must apply for the EIDL in order to request the advance.

Documentation Required (PPP & EIDL)

1. For the PPP, what documentation will be required?
   a. Each lender has an application - most are online. The application will gather the same information as is required on the sample application (review it here).
   b. Lenders will also gather proof of payroll costs. This may include things like quarterly payroll tax payments (IRS Forms 940, 941, or 944), accountant prepared statements, output from accounting software programs (Quickbooks), state or local tax receipts, and similar documentation. The information provided can be for 2019 or for the 12-months prior to loan application.

2. What if I have not filed a 2019 tax return yet? What documentation will be required?
   a. For both the PPP and the EIDL, alternative support documentation may be submitted. This may include your 2019 P&L/Income Statement, Quickbooks records, tax receipts, quarterly payroll tax payments, etc.

Sole Proprietors, Independent Contractors/1099s, and Self-Employed

1. If you are self-employed and have no other employees, can you still apply for the PPP?
   a. Yes, you may still apply. Your payroll costs will include wages, commissions, income, or net earnings from your self-employment.

2. For the PPP, what will I need to submit to support my “payroll” calculation as a sole proprietor, independent contractor, or self-employed?
   a. For a self-employed individual, you may submit documents that provide details on your 2019 earnings. This would include things like:
      i. 2019 Form 1040, Schedule C, Line 31
      ii. 2019 Form 1040, Schedule 1, Line 3
      iii. 2019 Forms 1099-MISC, Box 7
      iv. Invoices, check registers, etc.

3. How do I apply for the EIDL as a sole proprietor/independent contractor/self-employed?
   a. If you are an independent contractor or sole proprietor, you can still apply for the EIDL. If you have not formed a separate entity to do business under (an LLC, for example), you will indicate that you are “an individual who operates under a sole
proprietorship, with or without employees, or as an independent contractor” on the first page of the application.

4. As a 1099 Independent Contractor, can I apply for the EIDL, or the PPP, or both?
   a. You are eligible for both the PPP and the EIDL. Remember that the EIDL is meant to be used for working capital expenses, including payroll, whereas the PPP is meant to be used mostly for payroll. Also keep in mind that the PPP may be forgiven entirely, if used appropriately. The EIDL (other than the advance) is a loan and must be repaid.

5. When should I apply for these programs?
   a. As soon as possible. Both programs are now open.

Startup Businesses (less than one year)

1. My business is less than a year old and I don’t have a tax return yet. What do I submit?
   a. You are still eligible to apply; instead of a tax return, you will need to submit up to date financials. The SBA may request projections or other supporting documentation to show what you would have made.
   b. If you are applying for the PPP and you were not open in 2019, you will use January and February payroll to support your average monthly payroll costs.

Repayment, Forgiveness, & Uses of Funds

1. When does interest start to accrue (PPP)?
   a. Interest will accrue from the date of loan closing. The loan (any amount not forgiven), including all accrued interest, will need to be repaid 24 months from the closing date.

2. If you work out of your home, can you use the proceeds of the loan for mortgage and utility payments? (PPP, EIDL)
   a. Probably not. Most likely, you are paying yourself a salary, and this should pay your mortgage and utilities. Your salary would be covered. However, IF the mortgage interest and/or utilities are documented as a legitimate business expense (on your previous tax returns, accountant-prepared financials, etc.), you may be able to include it.

2. What types of expenses are allowed, and what is not allowed?
a. EIDL: Funds can be used for fixed expenses, payroll, working capital, monthly loan payments, etc. The loan cannot be used for lost revenue, lost profits, business expansions, remodeling, etc.

b. PPP: Funds can be used for payroll, rent, mortgage interest, utilities, and interest on other loans. In order to be eligible for forgiveness, at least 75% of the funds must have been used for payroll costs.