

**Small Business Loan and Loan Forgiveness Provisions of the
Coronavirus Aid, Relief, and Economic Security (CARES) Act**

Overview

On Friday, March 27, 2020, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Among other provisions, the CARES Act provides small businesses (defined as businesses with fewer than 500 employees) with access to nearly \$350 billion in loans under Section 7 of the Small Business Act. These loans, which will be administered by local banking institutions, will be guaranteed by the federal government. Importantly, such loans are forgivable to the extent that they are used for payroll costs, rent, mortgage interest, and certain utilities for a period of eight weeks following the loan origination date.

Application Process

While details relating to implementation are still being defined, the CARES Act is clear that the application process will be managed by local banking institutions, which are charged with developing, accepting, and processing loan applications under guidance from the U.S. Treasury Department. The CARES Act further relaxes the requirements that usually govern the loan application process, eliminates standard loan application fees, and removes the requirement of a personal guarantee or other collateral.

Loan Terms

During the “covered period” of February 15, 2020 through June 30, 2020, a small business may apply for a loan up to 2.5 times its average monthly payroll costs (including wages or salaries, benefits, and state or local taxes) for the one-year period ending on the loan origination date. Payroll costs do not include salaries in excess of \$100,000, payroll taxes, compensation of foreign employees, or sick leave provided under the Coronavirus Relief Act. The maximum potential loan is \$10 million. Loans will have a maximum maturity of ten years and an interest rate not to exceed 4%. Proceeds may be used to cover payroll, mortgage payments, rent, utilities, and other debt service requirements.

Loan Forgiveness

Payments of qualified expenses during the eight-week period following the loan origination date may be forgiven on a tax-free basis. Qualified expenses include payroll costs, mortgage interest, rent, and certain utilities. To seek forgiveness, a borrower will submit an additional application to its local banking institution supported by documentation of employees and their pay rates, as well as payment of mortgage interest, rent, and utilities. Reductions in employees or pay during the eight-week period may affect loan forgiveness.

Disclaimer

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Please do not hesitate to contact either Patrick O'Connor (poconnor@oconnorhernandez.com; +1 786 628 7541) or Patricia Hernandez-O'Connor (phernandez@oconnorhernandez.com; +1 786 628 7541) for further information.

