

The SBA Disaster Loan Program: COVID-19 Relief for the Small Business

The U.S. Small Business Administration (“SBA”) has begun to play an integral role in providing financial relief to businesses financially affected by the COVID-19 coronavirus. By encouraging small business owners to apply to the SBA Disaster Loan Program (“DLP”), the SBA has now emerged as a viable solution for qualifying businesses to survive the financial fallout from the coronavirus.

Over the last few days we’ve been in touch with many clients who are now needing to find a lending source to help get them through the uncertain times ahead. In response, we’ve been researching the DLP’s lending criteria to determine which business clients would benefit most from such a loan program and how much they could reasonably expect to borrow. Based on our research... (a) a small independently-owned business, (b) located within a declared disaster area, (c) having suffered, or is likely to suffer, substantial economic injury as a result of the disaster, and (d) who does not have credit available elsewhere, may apply to the DLP as a result of the current coronavirus crisis. Business applicants will be applying through the Economic Injury Disaster Loan (EIDL) program of the SBA.

The EIDL program was established for victims of disasters that have caused no physical damage to property (unlike the kind of damage caused by a hurricane or tornado). The EIDL program is meant to provide small businesses with working capital up to \$2,000,000. The actual amount loaned to a business is ultimately determined by SBA’s assessment of the actual economic injury sustained by the business, combined with the business’s financial need. Additionally, the SBA takes into consideration the financial resources available to a particular business through other avenues, like business interruption insurance, traditional bank borrowing, and the business owner’s personal savings.

The business borrower must have a proven credit history acceptable to the SBA and one that demonstrates an ability to repay any borrowings. Just like most traditional bank loans, the SBA expects the business to pledge any available collateral for loan borrowings in excess of \$25,000. While the SBA states it will not deny a loan for lack of collateral, we suspect the dollar amount the SBA will ultimately lend will be enhanced by sufficient collateral. But it should come as no surprise that a business with a history of net losses and little or no collateral may have difficulty obtaining these loans or maximizing the financing available.

As we've typically found over the years, the SBA requires a significant amount of information be provided during the loan application process. Having this information available from the start will expedite the process. The list below is designed to help business owners begin to gather just some of the more important information needed to expedite and fulfill the loan application process.

- The legal name, address, phone number and federal Employer Identification Number (EIN) of the business
- The date the business entity was established and the number of years under current management and ownership
- The name(s) and contact information of the individual(s) whom the SBA can contact for a Loss Verification Inspection, as well as any other additional information necessary to process the application
- The name, address, social security number, date of birth, title, phone number, email address and business ownership percentage for each owner of the business
 - If any owner of the business applying also owns a more than 50% interest in another business, you must be prepared to provide the name, address, EIN and your ownership % of each of those businesses
 - If the business applying for the SBA Disaster Loan has a greater than 50% ownership interest in another business entity, you must be prepared to provide information about that entity
 - A Personal Financial Statement ("PFS") must be completed for each owner of the business. A PFS typically includes a detailed list of all assets owned (like cash, investments, retirement accounts, real estate, automobiles, personal property, and ownership investment in closely-held businesses), the liabilities you owe (like mortgages, auto loans, credit cards and other debts), and the amount of liabilities you are contingently liable for (such loans you've personally guaranteed).
- A schedule of all outstanding business loans
- Your signed authorization allowing the SBA to obtain a transcript of the tax returns filed for the applying business, any businesses you own more than 50%, and of each owner's individual tax returns from the Internal Revenue Service

Here's the link to apply for a disaster loan on the SBA website:

<https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>