

# As Deadline for PPP Loans Approaches, SBA Resumes Accepting EIDL Applications

By Laura Rodriguez, JD, Senior Associate

The Small Business Administration (SBA) began accepting applications for new Economic Injury Disaster Loans (EIDL) and EIDL Advances beginning on June 15. Small businesses and U.S. agricultural businesses that have suffered substantial economic injury as a direct result of COVID-19 are qualified to apply. An EIDL can provide a small business with up to \$2 million in long-term low interest loans, while an EIDL Advance can provide up to \$10,000 of emergency funding within as little as three days.

## Economic Injury Disaster Loans (EIDL)

Although the SBA has long offered EIDLs in relation to other national disasters, the Coronavirus Aid, Relief, and Economic Security (CARES) Act increased funding available for the EIDL program by \$20 million, waived personal guarantees on loans up to \$200,000 and expanded EIDL eligibility for calendar year 2020 to include:

- any business with not more than 500 employees,
- any individual operating under a sole proprietorship or as an independent contractor, and
- any cooperative, ESOP or tribal small business concern with not more than 500 employees.

Additionally, under the CARES Act, Borrowers do not need to demonstrate that they are unable to obtain credit elsewhere.

An EIDL provides long-term (up to 30 years) low interest loans of up to \$2 million to small businesses or private, not-for profit organizations (3.75% and 2.75% respectively) that suffer substantial economic injury as a result of the declared disaster (in this case COVID-19). The SBA defines substantial economic injury as a decrease in income from operations or working capital resulting in the business being unable to meet its obligations and pay ordinary and necessary operating expenses in the normal course of business.

The actual loan amounts are based on the size of the business and the amount of economic injury suffered. The loan proceeds may be used to cover necessary day-to-day expenses which the business would have been able to cover if not for COVID-19. Examples of eligible expenses include:

- Payroll
- Accounts payable
- Providing paid sick leave to employees
- Covering increased costs to obtain materials
- Rent or mortgage payments
- Other obligations that cannot be met due to revenue loss

The EIDLs are not intended to replace lost sales or profits or for expansion, and may not be used for the following purposes:

- Refinance indebtedness which incurred prior to the disaster event;
- Make payments on loans owned by another federal agency (including SBA) or a Small Business Investment Company licensed under the Small Business Investment Act;
- Pay, directly or indirectly, any obligations resulting from a federal, state or local tax penalty as a result of negligence or fraud, or any non-tax criminal fine, civil fine, or penalty for non-compliance with a law, regulation, or order of a federal, state, regional, or local agency or similar matter;

- Repair physical damage; or
- Pay dividends or other disbursements to owners, partners, officers or stockholders, except for reasonable remuneration directly related to their performance of services for the business.

Additionally, if an EIDL borrower has also obtained a PPP loan, the EIDL funds must be used for different purposes.

Unlike Paycheck Protection Program (PPP) loans, EIDL loans are NOT forgivable and applicants apply for the EIDL directly from the [SBA](#).

### **Economic Injury Disaster Loan Advances (EIDL Advance)**

Perhaps even more appealing than the EDIL is the EIDL Advance. Under the CARES Act, borrowers applying for an EIDL may request an advance on the loan of up to \$10,000 (\$1,000 per employee) by applying for an EIDL Advance from the SBA. The EIDL Advance can be expected to be received in as little as three days from the submission of the EIDL application and does not need to be repaid.

Although the funds are an advance on the EIDL, recipients do not have to be approved for an EIDL in order to receive the advance. In the event that the EIDL Advance receipt is ultimately approved for the loan, the amount of the loan advance will be deducted from total loan eligibility. Additionally, if the recipient has also received a PPP loan, the amount of the EIDL Advance will be deducted from the forgivable portion of their PPP loan

### **Contact Us**

As always, for further guidance and assistance, please reach out to your PKFOD engagement team members, or Laura Rodriguez, JD, Senior Associate at [LoanForgiveness@pkfod.com](mailto:LoanForgiveness@pkfod.com). We are here to help.

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