

CLIENT UPDATE

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COVID-19 GUIDANCE: The CARES Act for Non-Profit Organizations

On March 27, 2020, a \$2.2 trillion economic stimulus program called the Coronavirus Aid, Relief, and Economic Security Act (as known as the "CARES Act"), was signed into law, in response to the 2020 coronavirus pandemic. The CARES Act includes provisions that are designed to provide immediate relief to, among others, certain non-profit organizations. One (1) area of note in the CARES Act, includes the expansion of section 7(a) of the Small Business Act (15 U.S.C. 636(a)) (the "Act"), known as the Paycheck Protection Program.

PAYCHECK PROTECTION PROGRAM

Under the CARES Act, the Paycheck Protection Program ("PPP") provides for \$349 billion of forgivable Small Business Administration ("SBA") loans to qualifying businesses. One such qualifying business eligible for SBA loans are non-profit organizations that (a) are tax exempt under Section 501(c)(3) or Section 501(c)(19) of the U.S. Internal Revenue Code and (b) have less than 500 employees. This would include certain religious and charitable corporations.

Through the PPP, eligible non-profits can receive a loan of up to \$10 million with an interest rate not to exceed 4%. The exact loan amount will be determined by a formula directly correlated to the payroll costs (i.e. up to 2.5 times the borrower's average monthly, less certain excluded payroll costs). No personal guarantee is required, and no collateral needs to be pledged to secure the loan. The SBA will guarantee 100% of the loan and eligible borrowers can apply through their existing SBA lenders, qualified banks, credit unions and other lenders. Lenders will begin processing loan applications as soon as April 3, 2020.

The CARES Act also provides for grant forgiveness of the loans up to an amount equal to the following expenses paid during an eight-week period beginning on the date of the origination of the loan:

1. Payroll costs (subject to certain salary cap and other limitations);
2. Interest on mortgage obligations or other debt existing prior to Feb. 15, 2020;
3. Rent under any enforceable lease agreement prior to Feb. 15, 2020; and
4. Utilities for which service began prior to Feb. 15, 2020.

It is important to note that there are the restrictions on the amount of loan forgiveness that may be received by borrowers, including that the forgiven amount: (a) cannot exceed the loan principal and (b) will be reduced if employees are either laid off or there is a reduction in compensation during such eight-week period. However, if those employees are rehired or if their compensation is restored to the February 15, 2020 levels prior to June 30, 2020, then the forgiveness reduction penalties will not impact the business or entity.

The application can be found [here](#), along with a fact sheet for borrowers [here](#), provided by the [U.S. Department of the Treasury](#). Additional information regarding the mechanics and requirements of the PPP will be released in the coming weeks.

For any questions or comments, please reach out to our team member, Jodi Warren, Esq., at jwarren@cbmslaw.com.