

Key Highlights of Latest Round of COVID-19 Relief as it Relates to Businesses

December 23, 2020

Dear Valued Business Clients,

This email has been prepared for you with the information available to us to date. Please keep in mind, the President has not signed this legislation into law, and he has made it clear he wants changes made to it. First Northern Bank will continue to update you as more information becomes available.

On December 21, 2020, the House and Senate passed legislation to supply the latest round of COVID-19 relief, authorizing more than \$900 billion in economic aid to small businesses and consumers – the second largest stimulus in history, behind only the CARES (Coronavirus Aid Relief and Economic Security) Act that Congress enacted in March 2020. The bill also includes appropriations provisions to keep the government funded through September 30, 2021, as well as a host of miscellaneous items.

Extension of Paycheck Protection Program (PPP)

- The deal approved by Congress includes \$325 billion for small businesses still struggling from the economic dislocations caused by COVID-19. Most of it (\$284.5 billion) will go to PPP funding for loans to small businesses.
- **The SBA is required to issue rules within 10 days of enactment.**
- Small businesses with less than 300 employees will be able to get a second loan if they can demonstrate they have had a revenue reduction of 25 percent in any quarter in 2020 compared to the same quarter in 2019
- This bill includes streamlined forgiveness for loans of \$150,000 or less.

PPP First Draw Changes

- Re-opens the PPP for first time recipients, with an expansion of eligible entities including 501(c)(6)s, destination marketing organizations (DMOs), housing cooperatives, newspapers, broadcasters, and radio stations. Prohibits publicly traded companies from receiving PPP funds as well as those entities receiving a Shuttered Venue Operator Grant. Clarifies that a business must have been in operation on February 15, 2020.
- \$35 billion for first-time borrowers of which \$15 billion for borrowers with 10 employees or fewer or loans less than \$250,000 for low-income areas.
- Expands list of eligible expenses to include covered operations (software, cloud computing, and other human resources and accounting needs); property damage costs

due to public disturbances that occurred during 2020 that are not covered by insurance; covered supplier costs; and covered worker protection expenditures (PPE).

- The covered period for all first draw loans is extended to March 31, 2021 and is retroactive to the start of CARES. Borrowers may choose the end of their forgiveness covered period between 8 and 24 weeks after the loan origination.

Creation of a Second Draw

- Includes a Second Draw of PPP funds for small businesses with 300 or fewer employees that have sustained a 25 percent drop in revenue in any quarter of 2020 when compared to the same quarter in 2019. A business must use or have used the full amount of their first PPP loan. The maximum loan amount is \$2 million.
- **The SBA has 10 days to issue guidance on how the second draw program will operate. Additionally, they must supply guidance addressing access to capital issues for underserved communities.**
- \$25 billion set aside for borrowers with 10 or fewer employees or loans less than \$250,000 in low-income areas.
- Maximum loan amount is 2.5 times the average monthly payroll based on the 2019 calendar year or a one year look back, capped at \$2 million. NAICS 72 Businesses (Accommodations and Food Services) can receive 3.5 times average monthly payroll, capped at \$2 million.
- Eligible entities must be businesses, certain non-profit organization, housing cooperatives, veterans' organizations, tribal businesses, self-employed individuals, sole proprietors, independent contractors, and small agricultural co-operatives.

EIDL (Economic Injury Disaster Loan) Advance Program

- Provides \$20 billion dollars to restart and extend the SBA's EIDL Advance Grant for small businesses in low-income communities.
- Creates a process for existing EIDL Advance grantees that received less than \$10,000 dollars to reapply for the difference between what they received and the maximum EIDL Advance Grant of \$10,000 dollars.
- Repeals section 1110(e)(6) of the CARES Act, which requires PPP borrowers to deduct the amount of their EIDL advance from their PPP forgiveness amount. Clarifies this change is retroactive to the start of CARES. Requires SBA to make borrowers whole if they have already received forgiveness and the EIDL Advance was deducted from that amount.
- **The SBA has 15 days from date of enactment to issue rules related to how the repeal works and how they will make borrowers whole.**

Forgiveness

- Creates a simplified PPP loan forgiveness application for loans under \$150,000 whereby the borrower signs and submits a one-page certification to the lender. The form

requires the borrower to list the loan amount, the number of employees retained, and the estimated total amount of the loan spent on payroll costs.

- **The SBA must create this form within 24 days of enactment. The SBA must create an audit plan within 45 days of enactment.**
- The borrower must attest they have accurately supplied the required certification and followed relevant requirements in the program. Borrowers must keep employment records for four years and other records for three years. Borrowers may submit voluntary demographic information.

Tax

- Supplies tax relief for borrowers who received forgiveness or subsidy payments under the CARES Act. Taxpayers will receive non-taxable treatment without any restrictions on deductibility for expenses paid with program proceeds.
- Expands employee retention credit eligibility by decreasing required revenue loss to 20% and increasing the amount of the credit. In addition, employers with 500 or less employees may qualify for an increased credit compared to the CARES Act. Applies for periods January 1 – June 30, 2021.

Bankruptcy and PPP

- A business in bankruptcy is entitled to receive a PPP loan.

Section 1112 Debt Relief

- Provides \$3.5 billion to resume the principal and interest (P&I) payments of new and existing small business loans guaranteed by the SBA under the 7(a), 504 and Microloan programs. SBA is granted the authority to continue to make principal and interest payments on existing SBA loan products (not PPP), through March 31, 2021.

Enhancement of Existing SBA Loan Programs

- Supplies \$2 billion to enhance the SBA's existing government guarantee loan programs, including the 7(a) Loan Program, the 504 Loan Program and the Microloan Program.
- Waives borrower and lender fees within the 7(a) and 504 loan programs.
- Increases the 7(a)-loan guarantee to 90 percent through October 1, 2021 after which the guarantee drops to 85% for loans with a balance under \$150,000 and 75% for loans with a balance above \$150,000.
- Extends the \$1 million loan limit for SBA Express Loans until October 1, 2021 after which it drops to \$500,000. For loans under \$350,000 the guarantee is increased to 75% until October 1, 2021 after which the guarantee reverts to 50%.
- Establishes a 504 Express Loan Program.
- Enhances the Microloan program to supply financial and technical aid to businesses affected by the COVID-19 pandemic.

Main Street Lending Program/Federal Reserve 13(3) Emergency Lending Authority

- The legislation terminates Federal Reserve authority for emergency lending facilities established by the CARES Act as of December 31, 2020.

First Northern Bank plans to participate in the second round of PPP to help its business clients in need receive this critical funding.

We Wish You a Safe and Happy Holiday!

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