

Federal and Local Government Aim to Protect Small Businesses During COVID-19

By Corey Zoldan

While COVID-19 has deeply impacted the economy in the United States, small business in particular have struggled to deal with the financial impact and uncertainty of the current global health crisis. Both the federal government and state governments have responded swiftly to take steps to help small businesses in these uncertain times through various loan and grant programs.

CARES Act: Paycheck Protection Program.

Through the passing of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the federal government has authorized the Small Business Association (SBA) with running a \$349 billion loan system to small businesses under its 7(a) lending program known as the “Paycheck Protection Program.” Generally, organizations with up to 500 employees will be able to borrow up to \$10 million to cover business related expenses incurred (which includes rent and payroll) from February 15th to December 31st.

The federal government will forgive loans related to businesses expenses for eight weeks. However, the amount of the loan that is forgiven may be reduced if the organization decreases its workforce as compared to the prior year, or if the employer reduces the pay of any employee by more than 25% of the last calendar quarter. Businesses will pay 4% interest on the remainder of the loan with a maximum maturity of 10 years. The Paycheck Protection Program does not have any borrower or lender fees, and waives collateral and personal guarantee requirements.

While applicants are not required to demonstrate actual harm to qualify, they are required to certify that: (1) the current economic uncertainty makes the loan necessary to support ongoing operations; (2) the funds will be used to keep workers and maintain payroll, lease, and/or utility payments and (3) the applicant does not already have an application pending for other payroll assistance pursuant to the CARES Act. Businesses who take out these loans are required to retain 90% of employment levels “to the extent practicable” through September 30th.

SBA Economic Injury Disaster Loans.

Another option for small businesses is to apply for an Economic Injury Disaster Loan (EIDL) for up to \$2 million, which is based on the SBA’s assessment of actual economic injury. The SBA also has the power to waive the \$2 million dollar limit if the business is a major source of employment. The SBA’s EIDL authorization is pursuant to the passage of the Coronavirus Preparedness and Response Supplemental Appropriations Act. In order for states or territories to

gain access to the funding, its Governor must make a formal request for EIDL Assistance, which all 50 states and United States territories have already done. Additionally, the applicant's business must have suffered "substantial economic injury"¹ as a direct result of COVID-19, and must not own any property subject to a U.S. government lien. Small businesses have an interest rate of 3.75%, while non-profits have an interest rate of 2.75%. The businesses have up to 30 years to pay back the loans, depending on their individual circumstances.

A small business may not utilize both the Paycheck Protection Program and an EIDL loan in response to COVID-19. However, a business with an already non COVID-19 EIDL may apply for the Paycheck Protection Program.

State and Local Small Business Protection Measures in the DMV.

Individual states have also taken action to help their own local small businesses. Maryland has established a \$50 million COVID-19 Emergency Relief Grant Fund, which "offers working capital to assist Maryland small businesses and nonprofits with disrupted operations due to COVID-19." Businesses with 50 or fewer employees and annual revenues of under \$5 million can apply for grants up to \$10,000 for "working capital to support payroll expenses, rent, mortgage payments, utility expenses, or other similar expenses that occur in the ordinary course of operation." More information about Maryland's Relief Grant Fund can be found here: <https://commerce.maryland.gov/fund/maryland-small-business-covid-19-emergency-relief-grant-fund>.

In Washington, D.C., small businesses were able to apply to the D.C. Small Business Recovery Microgrant Program for grants up to \$25,000 until March 31st. Mayor Muriel Bowser and the Council for the District of Columbia invested \$25 million into the fund to help small local businesses during this time. Information about that program can be found here: <https://coronavirus.dc.gov/dc-small-business-recovery-grants>.

In Virginia, Governor Ralph Northam has authorized rapid response funding through the Workforce Innovation and Opportunity Act for employers eligible to remain open to clean their facilities and support emergency needs. Funding can also be used to purchase remote working software programs or supplies, or for other innovative methods to keep the business open. This funding, however, cannot be used for payroll. Information about how the program works in Northern Virginia can be found here: <https://vcwnorthern.com/covid19-rapid-response/>

¹ "Substantial economic injury" is such that a business concern is unable to meet its obligations as they mature or to pay its ordinary and necessary operating expenses. Loss of anticipated profits or a drop in sales is not considered substantial economic injury for this purpose. CFR § 123.300(a)(1)-(2).

As the duration of the current health crisis remains indefinite, the actions taken by federal and state governments should be seen as a beginning point for helping small businesses, as more aid could be forthcoming. We will keep you updated on any new developments.

Check here to see if your business qualifies as a small business:

<https://www.sba.gov/document/support--table-size-standards>

More information regarding the EIDL program can be found here: <https://www.sba.gov/disaster-assistance/coronavirus-covid-19>

More information regarding the Paycheck Protection Program can be found here <https://www.sba.gov/funding-programs/loans/paycheck-protection-program>

Additional Resources:

- [US Senate Committee's "The Small Business Owner's Guide to CARES Act"](#)
- [US Chamber of Commerce's "Coronavirus Emergency Loans- Small Business Guide and Checklist"](#)