

## Navigating through economic instability and COVID-19: SBA economic injury disaster loans



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On March 12, 2020, the U.S. Small Business Administration (SBA) announced for designated states and territories low-interest federal disaster loans. The loans are for working capital to small businesses suffering substantial economic injury from the coronavirus (COVID-19). Upon a request received from a state's or territory's governor, SBA will issue under its own authority, as provided by the Coronavirus Preparedness and Response Supplemental Appropriations Act recently signed by the president, an Economic Injury Disaster Loan declaration.

Small business owners in the following designated states are currently eligible to apply for a low-interest loan due to COVID-19): Arizona, California, Colorado, Connecticut, Delaware, the District of Columbia, Florida, Georgia, Illinois, Indiana, Louisiana, Maine, Maryland, Massachusetts, Michigan, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Utah, Virginia, Washington, and West Virginia. Other states are in the process of applying for eligibility. In some of the states, businesses will be eligible only if located in designated counties.

Below are responses to frequently asked questions concerning the SBA's Economic Injury Disaster Loans:

**Is my small business eligible for a SBA Economic Injury Disaster Loan as a result of COVID-19?**

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Small businesses, small agricultural cooperatives, small aquaculture businesses, and most private non-profit organizations in designated areas of a state or territory are eligible to apply for a loan to help alleviate economic injury caused by the coronavirus. Agricultural businesses, religious and charitable organizations, gambling concerns (concerns that derive more than 1/3 of their annual gross income revenue from legal gambling activities), casinos and racetracks, and applicants who have not complied with the terms of previous SBA loans may not be eligible.

The SBA defines a small business as one that “is independently owned and operated and which is not dominant in its field of operation.” The law also requires that the definition of a small business vary from industry to industry to the extent necessary to reflect industry differences. Size standards are established by industry, generally as defined under the North American Industry Classification System – more commonly known as NAICS. The business can be a sole proprietorship, LLC, corporation or private non-profit.

Two common size standards cover most, but not all industries. First, a small business for most manufacturing and mining industries is defined as having 500 or fewer employees. Second, a small business for most nonmanufacturing industries does not exceed \$7.5 million in average annual receipts. SBA’s size standards methodology is posted on its website at [www.sba.gov/size](http://www.sba.gov/size).

### **Is there a cap on the amount of money a small business may borrow?**

Currently, \$7 billion is available for federal disaster loans for working capital to eligible small businesses. Eligible small businesses may qualify for loans up to \$2 million. If a business is a major source of employment, the SBA has the authority to waive the \$2 million statutory limit. The actual amount of each loan shall be limited to the economic injury determined by the SBA, less business interruption insurance and other recoveries up to the administrative lending limit. The SBA also considers potential contributions that are available from the business and its owner(s) or affiliates.

### **What can the loans be used to pay?**

The loans may be used to pay fixed debts, payroll, accounts payable and other bills that can’t be paid because of the disaster’s impact.

### **What is the interest rate for the loan?**

The interest rates for working capital loans are 3.75 percent for small businesses and 2.75 percent for nonprofit organizations.

### **When does the loan have to be repaid?**

The term of the loan is up to 30 years. A four-month deferral from the date of the SBA note is built in. Terms are determined on a case-by-case basis, based upon each borrower’s ability to repay.

### **How do you apply for a loan?**

Unlike other SBA loans, SBA’s Economic Injury Disaster Loan (EIDLs) funds come directly from the U.S. Treasury. Applicants do not go through a bank, credit union, or other lender to apply. Instead, applicants may apply online, in person at a disaster center, or by mail. Links to SBA Disaster Loan forms are listed below.

- <https://disasterloan.sba.gov/ela/Account/Login>
- <https://disasterloan.sba.gov/ela/Information/PaperForms>
- <https://www.sba.gov/funding-programs/disaster-assistance>

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Via mail:

U.S. Small Business Administration  
Processing & Disbursement Center  
14925 Kingsport Road  
Fort Worth, Texas 76155

There is no cost to apply and there is no obligation to take the loan if offered. Applicants can have an existing SBA Disaster Loan and still qualify for an EIDL for this disaster, but the loans cannot be consolidated. EIDLs cannot be used to refinance long term debts.

Applicants can prepare by reviewing the “Three Step Process” of SBA Disaster Loans (visit <https://disasterloan.sba.gov>) to understand what to expect in the application process. Disaster loan applicants can call the SBA Disaster Assistance Customer Service Center at 1-800-659-2955 (7 a.m. - 9 p.m. every day) or email [disastercustomerservice@sba.gov](mailto:disastercustomerservice@sba.gov) for help in completing their online application. Individuals who are deaf or hard-of-hearing can call 800-877-8339.

## **What documents are required to process the loan application?**

The following documents are required to process your application and reach a loan decision:

- Completed SBA loan application (SBA Form 5 or 5C).
- Tax Information Authorization (IRS Form 4506T) for the applicant, principals and affiliates.
- Complete copies of the most recent business Federal income tax return. If the most recent Federal business income tax return has not been filed, a year-end profit-and-loss statement and balance sheet for that tax year.
- Schedule of Liabilities (SBA Form 2202).
- Personal Financial Statement (SBA Form 413).

Other Information may also be requested, such as:

- Personal tax returns for all principals.
- A current year-to-date profit-and-loss statement (typically within 90 days).
- Monthly sales figures.

## **What collateral is required to obtain a loan?**

The maximum unsecured loan amount is \$25,000. Collateral is required for any loan that exceeds \$25,000. The SBA takes real estate as collateral when it is available. The SBA will not decline a loan for lack of collateral, but will require the SBA 7(a) loan program rule of “any and all available” collateral, meaning that if the owner has collateral, they must pledge it up to the loan amount, and if they fall short or don’t have collateral, the loan will not be automatically denied.

## **How long does the loan approval process typically take?**

Once all the required information is submitted, the approval process is 8-21 days, depending on questions and how quickly the business owner responds back to SBA inquiries. Once approved, a loan is typically closed within 5 business days.

## **Is there a deadline to file your application for a loan?**

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There is a deadline to file the loan application, which varies from state to state. Below are certain deadlines:

- Ohio – December 21, 2020
- Illinois – December 21, 2020
- Michigan – December 21, 2020
- Florida – December 18, 2020

### **Should I be coordinating with my existing non-SBA lenders?**

You should review your existing lending relationships with your lenders and any borrowing availability as your primary borrowing sources. Thereafter, as you undertake the SBA loan process, you should coordinate with your existing lenders on any intercreditor and/or collateral matters.

McDonald Hopkins has a team of professionals dedicated to assisting businesses experiencing financial distress as result of the coronavirus. For more information on legal and business solutions to the impact of the coronavirus on your business, [click here](#).

If you have questions regarding the SBA Economic Injury Disaster Loan program or process, please contact [Michael Wise](#) at 216-430-2034 or [mwise@mcdonaldhopkins.com](mailto:mwise@mcdonaldhopkins.com).

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