

THE CARES ACT: OVERVIEW FOR INDEPENDENT CONTRACTORS

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The CARES Act authorizes two Small Business Administration (SBA) loan programs that are available to sole proprietors, independent contractors, or self-employed individuals. Borrowers can't apply for both loans for duplicative purposes, but borrowers can refinance Economic Injury Disaster Loans into the Paycheck Protection Program,

SBA Paycheck Protection Program

- Key benefits are: payment deferral, loan forgiveness, and ease of qualification
- No personal guarantee, no recourse unless loan proceeds improperly used, and no collateral
- Borrower must certify that uncertain economic conditions make the loan necessary to support ongoing operations and that the funds will be used to retain workers and pay for authorized uses
- Maximum loan amount = 2.5 times average monthly payroll costs (meaning income or net earnings from self-employment not over \$100,000 per year on an annualized basis) based on prior year or other applicable period
- Interest rate capped at 4% and maximum duration of 10 years
- Authorized uses (not an exhaustive list):
- Payroll costs (as defined above)
- Interest on debt obligations incurred before Feb. 15, 2020
- Payment deferral for loan principal, interest, and fees for at least 6 months but no more than 1 year
- Loan forgiveness (up to amount of principal) for payroll costs paid during the 8-week period starting the loan origination date

SBA Economic Injury Disaster Loan

- Key benefit is the ability to access emergency grant up to \$10,000 that does not require repayment and ability to use loan proceeds for paying a wider range of debts
- No personal guarantee for loans of \$200,000 or less but collateral may be required for loans over \$25,000
- Maximum loan amount is up to \$2 million
- Interest rate of 3.75% with a maximum term of 30 years
- Emergency Advance of up to \$10,000 to awarded within 3 days of application
- Authorized uses for Emergency Advance and loan funds:
 - Ordinary and necessary operating expenses to keep the business going until resumption of normal operations
 - Paid sick leave to employees unable to work due to COVID-19
 - Maintaining payroll to retain employees
 - Meeting increased supply chain costs
 - Making rent or mortgage payments
 - Repaying debts that cannot be paid due to lost revenue

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