



## ECONOMIC INJURY DISASTER LOANS – ANSWERS TO FREQUENTLY ASKED QUESTIONS

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) became law and, among other things, expanded the Small Business Administration (“SBA”) 7(a) loan program to offer payroll protection loans. As small businesses evaluate options for immediate cash flow relief, they should consider the differences between the expanded SBA 7(a) loan program and Economic Injury Disaster Loans (“EIDL Loans”). This update intends to address common questions and concerns with respect to EIDL loans. For a more comprehensive review of implications of CARES Act for small businesses and lenders, including the expanded SBA 7(a) loan program and payroll protection loans, please see our prior legal update [here](#).

### **What is the EIDL Loan program?**

The EIDL Loan program provides qualifying small businesses with low interest loans to address reduced cash flow resulting from economic injury and disasters, which now includes the COVID-19 pandemic in designated states under the CARES Act.

### **Who may apply for an EIDL Loan?**

Generally, EIDL Loans are available to businesses with fewer than 500 employees that have been in continuous operation since January 31, 2019. Sole proprietors, single member LLC/sole shareholder corporations are also eligible. To apply for the EIDL Loan, a business must show it has been adversely affected by COVID-19. Hardship may be evidenced by certification alone.

### **Do I qualify for an EIDL Loan?**

The SBA will require that you meet the following criterion:

(i) satisfactory credit history; (ii) repayment ability; (iii) meet the definition of small business; and (iv) show an economic injury.

### **I heard EIDL Loan proceeds may be disbursed in connection with a loan application? Is this true?**

Under the CARES Act, an “emergency grant” program is established in connection with EIDL Loans program. Upon receipt of an EIDL Loan application, SBA lenders may disburse loan advances in amounts not to exceed \$10,000 within 3 days of the lender’s receipt of an application. The SBA currently estimates that the full amount of the approved loan proceeds will be distributed approximately thirty (30) days after approval.

**May my business apply for an EIDL Loan and 7(a) Loan?**

A business may not accept an EIDL Loan and a 7(a) payroll protection loan for the same purposes. For example, proceeds from an EIDL Loan may not be used to pay payroll in April 2020 if proceeds from a 7(a) payroll protection loan are being used for that purpose. However, the CARES Act permits a borrower who has an EIDL Loan unrelated to COVID-19 to apply for a 7(a) payroll protection loan, with an option to refinance the EIDL Loan into the 7(a) loan.

**What are the standard loan terms for an EIDL Loan?**

The interest rate shall not exceed four percent (4.00%) per year. The term may not exceed 30 years.

**Is a personal guarantee required? Is the loan secured by collateral?**

For EIDL Loans, the SBA is currently waiving the required personal guarantees for loans in amount up to \$200,000 for the covered period. In other words, if a business seeks an EIDL Loan over \$200,000, a personal guarantee will be required.

Additionally, if the loan exceeds \$25,000, the SBA will require some form of collateral, though it could be subordinated or junior position. Please be aware this may require approval of any existing lender.

**What can loan proceeds be used for?**

Loan proceed can be used for working capital expenses, including rent, payroll, utilities, health insurance premiums, or fixed debts. It cannot be used to refinance old debt, for dividends or distributions to members or shareholders, or to pay tax penalties.

**Can I get loans for multiple businesses?**

Yes. Each business entity may be able to qualify.

**What documentation is required?**

If a business applies for an EIDL Loan, it should have the following documents prepared:

- (i) SBA Form 5;
- (ii) IRS Form 4506-T;
- (iii) a copy of the business's most recent two (2) tax returns including all schedules;
- (iv) SBA Form 413;
- (v) SBA Form 2202; and
- (vi) a current profits and losses statement or balance sheet for fiscal year 2019 and 2020 year-to-date.

**Will the SBA permit loan forgiveness and repayment deferment options for EIDL Loans as they have with SBA 7(a) loans?**

Yes. Payment deferment and loan forgiveness are assessed pursuant to the same standards identified for payroll protection loans [here](#).

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**Source: GRSM COVID-19 HUB**

<https://www.grsm.com/publications/2020/economic-injury-disaster-loans-answers-to-frequently-asked-questions>