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Insights

CORONAVIRUS CREDIT SQUEEZE? SMALL BUSINESSES SHOULD CONSIDER DISASTER ASSISTANCE LOANS FROM THE SBA

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SUMMARY

The devastating impact of the Coronavirus (COVID-19) needs no introduction. Among the many enormous challenges facing the world today as a result of the rapid and pervasive spread of the virus, businesses have watched as most if not all of their debt and equity financing options have disappeared almost overnight. This credit squeeze can be especially trying for small businesses, which do not have the same asset base, negotiating power, cash flows, and other resources as large companies who may be able to weather the storm better.

Various measures are being taken to counteract the effect of the virus on debt and equity markets, including the Fed pumping $1.5 trillion into repo markets, President Trump and Congress working expeditiously on additional emergency relief, and many additional initiatives happening at the state and local level. However, one recent headline critical for owners and investors in small businesses that may have been overlooked is that the U.S. Small Business Administration ("SBA"), through its Economic Injury Disaster Loan program, is currently offering low-interest working capital loans to small businesses that have experienced a "substantial economic injury" as a result of the Coronavirus.

Loan terms are generous, with interest rates at only 3.75%, principal amounts of up to $2 million, and repayment terms of up to 30 years, depending on the particular financing needs of your business. However, in addition to qualifying as a small business to begin with (which is determined by industry, average revenues, and/or number of employees), there are several criteria that must be met in order for businesses to be eligible for these loans:

> **First**, the business must be one "without any credit available elsewhere;"
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> **Second**, the business must be "unable to meet its obligations and to pay its ordinary and necessary operating expenses" (i.e., the business suffered a "substantial economic injury"); and

Third, the business must be located in a state or territory the governor of which has requested Economic Injury Disaster Loan assistance from the SBA.

It is increasingly likely, especially as the pandemic continues to worsen, that many small businesses will meet these criteria, but funds are (of course) not unlimited. Furthermore, even if Congress and the President approve additional emergency financial relief programs to be offered through the SBA, the SBA may not have the ability to effectively administer the programs, having supported loans totaling only about $12.7 billion in the five-year period ended September 30, 2019. Similarly, the specific role of traditional lenders in connection with any new SBA loan programs remains unclear. It is therefore incumbent upon small business owners and investors experiencing financial difficulties to assess their options immediately and move quickly to secure funding.

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