
FISCAL UPDATE Article

Fiscal Services Division

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COVID-19 — U.S. SMALL BUSINESS ADMINISTRATION PAYCHECK PROTECTION PROGRAM UPDATE — AUGUST 27, 2020

Paycheck Protection Program. The U.S. Small Business Administration (SBA) [Paycheck Protection Program](#) (PPP) is a loan program designed in response to COVID-19 to provide a direct incentive for small businesses to keep their workers on the payroll. The federal Coronavirus Aid, Relief, and Economic Security (CARES) Act ([H.R. 748](#)) includes \$349.000 billion for the PPP. All small businesses with 500 or fewer employees are eligible. A PPP loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, or utilities. At least 75.0% of the forgiven amount must be used for payroll. Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge participating small businesses any fees.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines or if salaries and wages decrease. This loan has a maturity of two years and an interest rate of 1.0%.

Lenders were permitted to begin processing loan applications on April 3, 2020. The Program closed August 8, 2020, and loan applications are no longer being accepted.

Congress passed the [Paycheck Protection Program Flexibility Act](#) on June 3, 2020, and it was signed by President Donald J. Trump on June 5, 2020. The Act modifies provisions related to the forgiveness of loans made to small businesses under the PPP. Specifically, the Act establishes a minimum maturity of five years for a paycheck protection loan with a remaining balance after forgiveness.

The Act extends from 8 weeks to 24 weeks the covered period during which a loan recipient may use such funds for certain expenses while remaining eligible for forgiveness.

The Act raises the nonpayroll portion of a forgivable covered loan amount from the current 25.0% to 40.0%. The Act extends the period in which an employer may rehire employees or eliminate a reduction in employment, salary, or wages that would otherwise reduce the forgivable amount of a paycheck protection loan. However, the forgivable amount must be determined without regard to a reduction in the number of employees if the recipient is (1) unable to rehire former employees and is unable to hire similarly qualified employees, or (2) unable to return to the same level of business activity due to compliance with federal requirements or guidance related to COVID-19.

Additionally, the Act revises the deferral period for paycheck protection loans, allowing recipients to defer payments until they receive compensation for forgiven amounts. Recipients who do not apply for forgiveness have 10 months from the Program's expiration to begin making payments.

The Act also eliminates a provision that made a paycheck protection loan recipient who has such indebtedness forgiven ineligible to defer payroll tax payments.

The CARES Act also established the Economic Injury Disaster Loans ([EIDL](#)) Advance Program that provides grants of up to \$10,000 when applying for EIDL. Businesses with both a PPP loan and an EIDL advance will have a [reduction](#) in the amount the PPP loan that is forgiven by the amount of the EIDL advance.

According to [data](#) provided by the SBA, as of August 8, 2020, a total of approximately \$5.125 billion in loans has been issued to approximately 61,400 Iowa businesses in all rounds of the Program. The totals reflect both rounds of Program funding and cancellations through the report date. Cancellations include duplicative loans, loans not closed for any reason, and loans that have been paid off.

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