Main Street Lending and Other Options After PPP

Employers have different options available to them under the Coronavirus, Aid, Relief, and Economic Security (CARES) Act for how to keep the lights on and continue paying their workers during the economic downturn. The most attractive option was the Paycheck Protection Program (PPP), which provided businesses with a loan that's forgivable on a tax-free basis as long as the requirements are met. But the $348 billion allocated to the PPP has already been used up, and it will take further legislation to re-fund it. Thus, it's back to the drawing board for many businesses.

Other options under the law include a refundable tax credit for employment taxes and deferring employment tax payments. Businesses that took the loan gave up their ability to take advantage of the refundable tax credit, but because the credit is limited to $5,000 per employee, it isn't an attractive option for most. Employers can also take advantage of employment tax deferral and the loan program until the loan is forgiven, then deferral is no longer an option. However, deferring employment taxes until 2021 and 2022 can be a ticking time bomb for some businesses.

For a strong business with a secure balance sheet, deferring employment taxes is a great idea now that it is temporarily allowed under the CARES Act. For a struggling business, though, it can be dangerous. When the deferral comes due, it might put the business over the edge. Employment tax deferral is like kicking the can down the road, because the business must make enough to cover its regular cash flow needs in the coming 18 months, plus play catch-up on its deferred payments. Some clients are simply going to forget that they still owe the payroll tax in the future, but the fact that they can't pay their portion of the employment taxes now means they're already in serious trouble.

The SBA and Treasury recently released guidance on the application of the PPP to self-employed individuals. The guidance first states that partners in partnerships can't apply for loans, and then sets forth how much can be borrowed and forgiven by self-employed workers. The PPP loan is still a much better deal than payroll tax deferral for most self-employed individuals. But with the loan program out of money, some companies may have no choice but to take advantage of the other CARES Act provisions to keep their employees working.

Another possible option for some businesses is the Federal Reserve's new Main Street Lending Program. Unlike PPP loans, the Main Street Lending Program provides traditional loans, although they offer lower interest rates. Differences between the programs include the following:

- The interest rates borrowers can expect to pay on Main Street loans are variable and right now range from 2.5 percent to 4 percent. The PPP loans offer a 1 percent fixed interest rate.
- The repayment term for Main Street loans is four years. PPP loans have two-year terms.
- The smallest loan amount for Main Street loans is $1 million. There's no minimum loan amount for PPP loans. There are upward limitations on both programs. For PPP loans, the maximum loan amount is $10 million. Main Street loan sizes vary based on which Main Street Lending facility for which the company applies. Basically, there are two choices. The first one is for new loans and the second one is for borrowers who have an existing loan through a given lender.
- While PPP loans may be fully or partially forgiven if at least 75 percent of the loan proceeds are used to pay employees' payroll costs, rent, and utilities, Main Street loans may not be forgiven.

Since there's no minimum company size requirement for eligibility for Main Street loans, sole proprietors, self-employed business owners, and companies with fewer than 500 employees may theoretically apply. Unfortunately, many smaller companies will be unable to meet the financial requirements involved in the Main Street program. To be eligible, companies need to have at least $250,000 in earnings before interest, taxes, depreciation and amortization (EBITDA), and no debt. Companies with debt have higher EBITDA requirements. Businesses that don't meet the requirements of the Main Street program will need to wait for the PPP be refunded and, of course, carefully review the other CARES Act options.