

SBA Loans Now Available to Churches

Frequently Asked Questions

The \$2.2 trillion stimulus package, called the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), was signed into law by President Trump on Friday, March 27. As previously noted, the legislation contains a revamped loan program through the Small Business Administration (SBA). While historically SBA loans are not available to churches, because of the current coronavirus pandemic, the legislation made an exception and allows nonprofits/churches to receive these governmental guaranteed loans.

If the loans are used for “paycheck protection” programs, there is also a forgiveness provision, basically turning the entire loan, or at least the portion used for paycheck protection, into a grant from the government.

The following is a list of questions and answers, specifically geared to churches, that have been raised concerning this new program:

Who is eligible for the loans?

Businesses and nonprofits with fewer than 500 employees who were in business prior to Feb. 15, 2020.

May churches apply for these SBA guaranteed loans?

Yes. The legislation specifically allows nonprofit organizations to apply.

What type of collateral is needed to get these SBA loans?

None. They are 100% federally backed and do not require collateral or personal guarantees.

How much can I borrow under this program?

Generally, 2.5 times the average total monthly payroll costs incurred in the one year period before the loan is made, capped at \$10 million.

In determining payroll costs, what is included?

- Salaries and other wages
- Employer paid health care benefits
- Employer paid retirement benefits
- Employer paid state and local payroll taxes

In determining payroll costs, what cannot be included?

- Compensation of an employee in excess of an annual salary of \$100,000
- Federal payroll taxes
- Compensation of an employee whose principal place of residence is outside the United States
- Emergency sick leave or emergency family leave covered under another stimulus bill.

How does a church apply?

You must apply through your bank, credit union, or other lender that participates in the SBA 7(a) program.

Once I apply, how long will it take to get the money?

Once the SBA guidelines are available (probably within 7-10 days of passage of the bill), funds can be disbursed the same day of the application.

What are the requirements to get a loan?

- A good faith certification that the current economic conditions makes the loan necessary to support the ongoing operations of the borrower
- Information that the borrower was in operation on February 15, 2020
- The borrower had employees and paid salary and benefits as of February 2020, and
- A certification that the funds will be used for
 - Payroll costs
 - Paid sick, medical, or family leave
 - Mortgage interest (but not principal reduction payments)
 - Interest on other debt obligations incurred before February 15, 2020
 - Rent, or
 - Utilities

What is the interest rate on the loans?

The maximum interest rate is set by law at 4%.

How long does the church have to pay back the loan?

The loans are for 10 years.

Does the church have to start making payments immediately?

The legislation allows borrowers to defer payments for six months, and possibly up to a year. Once the deferment is over, the 10-year amortization period starts.

If the church is going to apply for one of the SBA guaranteed loans, when must we apply?

The legislation states that the loans are available from February 15, 2020 to June 30, 2020. Therefore, it seems as though you would have to apply before June 30.

Will the church have to repay this loan or is it a grant?

The legislation creates a low interest loan program for which churches are eligible to apply. However, if the church maintains its employees between March 1 and June 30, 2020, there is a provision that allows for certain forgiveness of some, or all, of the loan, essentially turning the loan into a grant.

A formula is used to determine whether the borrower reduced its workforce during a specific period in 2020. If not, and if the funds were used to pay eligible expenses, those amounts can be forgiven.

What amounts can be forgiven under the forgiveness program?

- Allowable payroll expenses
- Covered Rent Payments
- Covered Utility Payments
- Mortgage interest (does NOT include principal reduction payments)
- Interest on certain other debt obligations

How does a church apply to have some or all of their loan forgiven?

You must submit an application and documentation for forgiveness to your lender for any amount to be forgiven.

How much money is available through the SBA for this loan program and forgiveness program?

The legislation provided at least \$349 billion.

OTHER ISSUES

Are church employees covered under the expanded unemployment benefits of the CARES Act?

The legislation expands benefits for displaced employees who are already eligible for unemployment benefits and provides unemployment benefits for specifically designated employees. Church related workers, who are normally not eligible for unemployment benefits, are not included in the specific designations, and from all indications, church employees and

ministers are not eligible for benefits under the expanded unemployment benefits program of the legislation.

Were charitable contributions addressed in the legislation?

A specific one time provision was included in the legislation, allowing for an “above the line” deduction for charitable contributions, limited to only \$300 and only applicable for the 2020 tax year, for those who do not itemize.

Were employer payroll taxes addressed in the CARES Act?

Under the legislation, employers, including churches, may defer payment of 50% of the employer payroll taxes attributed to wages paid during 2020 until December 31, 2021, with the remaining 50% deferred to December 31, 2022. For the purposes of this provision applicable to churches, payroll taxes is only the employer’s portion of FICA. Of course, FICA does not apply to ministers.

(NOTE: The information provided is based upon a review of the legislation, discussions with officials engaged in the direct negotiation of this legislation, and published reports on the legislation. Please be aware that regulations to carry out the legislation could change the responses provided above.)