

SBA Disaster Loan Program for Michigan Business Owners

I. What is the disaster loan program?

The U.S. Small Business Administration (SBA) has designated COVID-19 as a qualifying event for the provision of Economic Injury Disaster Loans (EIDL) for businesses and private non-profits in declared zones. For Michigan small business owners, the news broke late Thursday afternoon that Michigan is approved for SBA low-interest loans: Governor Gretchen Whitmer announced that the U.S. Small Business Administration approved her request for a statewide Economic Injury Disaster Loan declaration, opening the opportunity to small businesses to access low-interest loans from the SBA. [The application for disaster loan assistance is available, here.](#)

II. What are the eligibility criteria?

The EIDL provides up to \$2 million of financial assistance to small businesses or private, nonprofit organizations that suffer substantial economic injury as a **direct result** of the declared disaster. This includes:

- businesses directly affected by the disaster;
- businesses that offer services directly related to the businesses in the declaration; and
- other businesses indirectly related to the industry that are likely to be harmed by losses in their community (for example, if a manufacturer of widgets is eligible, wholesalers and retailers of widgets may also be eligible).

Depending on your industry, a small business can be defined by either the number of employees (ranging from a maximum of 250 employees in certain industries up to a maximum of 1,500 employees in others) or annual revenue limitations. Size standards have been established based on types of economic activity or industry, generally using the North American Industry Classification System (NAICS). For example, a CPA firm would need to have less than \$22 million in annual revenue in order to qualify as a small business under federal regulations, whereas research and technology in biotechnology-related companies are considered a "small business" if they have fewer than 1,000 employees.

Virtually any business located in Michigan that has suffered qualifies. Subject to certain limited exceptions, the business can be a sole proprietorship, LLC, corporation, or private non-profit. To see if your business qualifies, [see the SBA's definition of a small business](#). The applicant business must also have a credit history acceptable to the SBA, a determination that is made on a case-by-case basis.

Certain organizations are not eligible for these loans, including religious and charitable organizations, gambling concerns (businesses that derive more than 1/3 of their annual gross revenue from legal gambling activities, such as poker parlors), and casinos and racetracks.

III. What can the funds be used for?

These working capital loans may be used to pay:

- fixed debts;
- payroll;

- accounts payable; and
- other bills that can't be paid because of the disaster's impact.

The working capital loan may not be used for refinancing, expansion, growth of any kind, or infrastructure improvements.

IV. What are the lending criteria?

- **Credit history** – Applicants must have a credit history that is acceptable to the SBA. The SBA will look at extenuating circumstances if bad credit is recent and can be shown to be caused by the COVID-19 pandemic.
- **Repayment** – As with all loans, you will need to prove that you have the ability to repay the loan.
- **Collateral** – When applying for loans greater than \$25,000, the business must provide collateral. The SBA requires borrowers to pledge what is available including real estate. Loans under \$25,000 can be unsecured.

V. What are the terms?

The interest rate is 3.75% for small businesses without credit available elsewhere; businesses with credit available elsewhere are not eligible. SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay.

VI. How should you prepare to apply for a loan?

Gather the following information:

- Most recent federal tax return
- Year-end Profit & Loss statement
- A current year to date Profit & Loss statement
- Monthly break down of sales figures

Get familiar with the necessary SBA forms:

1. Completed SBA loan application (SBA Form 5 or SBA Form 5C)
2. Tax Information Authorization (IRS Form 4506T)
3. Schedule of Liabilities (SBA Form 2202)
4. Personal Financial Statement (SBA Form 413)
 - a. [Follow this link to see PDF copies of all the forms and instruction pages.](#)

VII. Upcoming Legislation – Coronavirus Stimulus Package

Congress is currently (as of March 23, 2020) working on Coronavirus stimulus legislation to provide small business loans with reduced requirements for collateral, fees and payment terms. This proposed legislation would allow businesses to use the loan funds to pay certain expenses from March 1, 2020 through December 31, 2020, including payroll, payroll taxes, and benefits, mortgage and rent payments, utilities, and monthly debt service payments. The proposed legislation also includes forgiveness for the portion of loans used for payroll and related expenses and monthly debt service payments.

Stay tuned for further updates on the final details of the stimulus legislation expected in the coming days. If you have any questions about the SBA Economic Injury Disaster Loans (EIDL) for businesses and private nonprofits in Michigan, please call one of our Bodman attorneys below for more details.

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