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IOWA CREDIT UNION LEAGUE

Coronavirus Aid, Relief and Economic Security Act (CARES Act)

Summary of Provisions of Interest to Credit Unions as Passed by Congress

Title I: Keeping American Workers Paid and Employed

Paycheck Protection Program – The CARES Act establishes the Paycheck Protection Program, a $350 billion loan program to help small & mid-sized businesses with cash flow during the COVID-19 crisis. If the business maintains its payroll for eight weeks, the portion of the loan used for covered payroll costs, interest on mortgage obligations, rent, and utilities would be forgiven.

Who is eligible to receive the loans?

- Businesses with 500 or less employees;
- Businesses that meet current Small Business Administration (SBA) size standards;
- Self-employed individuals and "gig economy" workers;
- Certain nonprofits, including 501(c)(3) organizations and 501(c)(19) veteran organizations; and
- Tribal businesses with under 500 employees.

What is the size of the loans?

- The maximum loan size is 250% of the employer's average monthly payroll, or $10 million (whichever is less).

What can loans be used for?

- Payroll costs (salary, wages, and payment of cash tips up to annual rate of $100,000 per employee);
- Continuation of health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
- Employee salaries, commissions, or similar compensations;
- Payments of interest on mortgage obligations;
- Rent, including rent under lease agreement;
- Utilities; and
- Existing allowable uses under 7(a) program, which includes purchasing inventory, supplies, raw materials and working capital.

How does the loan forgiveness work?

- Borrowers are eligible for loan forgiveness equal to the amount they spend on payroll, interest on mortgages, rent, and utilities during the 8-week period after the origination date of the loan.
- The amount forgiven will be reduced proportionally by any reduction in employees retained compared to the prior year, and by any reduction in pay of employee beyond 25% of their prior year compensation. To encourage employers to rehire any employees who have already been laid off, borrowers that re-hire workers previously laid off will not be penalized for having a reduced payroll at the beginning of the period.

Who makes and approves the loans?

- The loans will be 100% backed by the government, but the authority to make and approve loans is delegated to local banks and credit unions.

- Financial institutions that are already approved 7(a) lenders would be automatically eligible to participate. The bill also directs the Treasury Department to create a streamlined process for becoming an approved lender so more financial institutions can participate.
- Without going through all of SBA's channels, lenders can make determinations on a borrower's eligibility/creditworthiness. Instead of determining the ability for the businesses to repay, lenders will simply determine whether a business was operational on February 15, 2020, and whether it had employees for whom it paid salaries and payroll taxes, or a paid independent contractor.
- SBA will provide lenders with a process fee for servicing the loan. The bill sets lender compensation fees at 5% for loans of not more than $350,000; 3% percent for loans of more than $350,000 and less than $2,000,000; and 1% for loans over $2,000,000.

What happens to the portion of loan that is not forgiven?

- The remaining balance will maintain a 100% guarantee & have a maturity of not more than 10 years.
- Loan payments are deferred at least six months.
- The maximum interest rate is 4%.

Can businesses receive this and an Economic Injury Disaster Loan?

- Borrowers may not receive a Paycheck Protection Program (PPP) loan and an SBA Economic Injury Disaster Loan (EIDL) for the same purpose. However, a borrower who has an EIDL loan unrelated to COVID-19 may also apply for a PPP loan.

Employee retention credit – In lieu of the Paycheck Protection Program, employers can opt to receive a refundable payroll tax credit for 50% of wages paid by employers to employees during the COVID-19 crisis. Available to employers with operations that were at least partially suspended because of a shutdown order, or employers who had gross receipts decline at least 50% relative to the same quarter last year.

Delay of payment of employer payroll taxes – Allows employers and self-employed individuals to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees. Deferred tax would be paid in the following two years.

Title II: Assistance for American Workers, Families and Businesses

Emergency increase in unemployment compensation benefits – An additional $600 per week payment is provided to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to four months.

Pandemic emergency unemployment compensation – An additional 13 weeks of unemployment benefits through December 31, 2020 are provided to help those who remain unemployed after weeks of state unemployment benefits are no longer available.

2020 recovery rebates for individuals – All U.S. residents with adjusted gross income up to $75,000 ($150,000 married), who are not a dependent of another taxpayer and have a work eligible social security number, are eligible for the full $1,200 ($2,400 married) rebate. In addition, they are eligible for an additional $500 per child. This is true even for those who have no income, as well as those whose income comes entirely from non-taxable means-tested benefit programs, such as SSI benefits.

For most U.S residents, no action will be required to receive a rebate check, as IRS will use a taxpayer's 2019 tax return if filed, or in the alternative, the 2018 return. The rebate amount is reduced by $5 for each $100 that a taxpayer's income exceeds the phase-out threshold. The amount is completely phased-out for single filers with incomes exceeding $99,000, $146,500 for head of household filers with one child, and $198,000 for joint filers with no children.

Delay of payment of employer payroll taxes – Employers and self-employed individuals are allowed to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees.The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022.

Title IV: Economic Stabilization

Debt guarantee authority – The Federal Deposit Insurance Corporation (FDIC) may temporarily establish a debt guarantee program to guarantee debt of solvent insured depositories and depository institution holding companies. Noninterest-bearing transaction accounts may be treated as a debt guarantee program. Such authorities, programs, guarantees, and increases shall terminate no later than December 31, 2020.

Relief from troubled debt restructurings – A financial institution may elect to suspend requirements under U.S. Generally Accepted Accounting Principles for loan modifications related to the coronavirus pandemic, and suspend any such determination regarding loans modified as a result of the effects of the coronavirus. Such election may begin on March 1, 2020 and last no later than 60 days after the lifting of the coronavirus national health emergency.

Optional temporary relief from Current Expected Credit Losses – An insured depository institution (including a credit union), bank holding company, or any of its affiliates has the option to temporarily delay measuring credit losses on financial instruments under the new Current Expected Credit Losses (CECL) methodology. Such option to delay expires at the earlier of December 31, 2020, or the date on which the national emergency declaration related to coronavirus is terminated.

Temporary credit union provisions; expanding liquidity – Temporarily enhances access to the Central Liquidity Facility (CLF), including for corporate credit unions, to meet liquidity needs. Increases resources available to meet liquidity needs through the Facility.

Foreclosure moratorium and consumer right to request forbearance – Prohibits foreclosures on all federally-backed mortgage loans for a 60-day period beginning on March 18, 2020. Provides up to 180 days of forbearance for borrowers of a federally-backed mortgage loan who have experienced a financial hardship related to the COVID-19 emergency.