

New CARES Act Provides Subsidy for SBA Loan Borrowers

by Anthony J. Zeoli

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On March 27, 2020, Congress approved the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to provide financial assistance to individuals and businesses. Title I of the CARES Act (the “Keeping Workers Paid and Employed Act”) includes several provisions intended to help small business suffering the adverse economic affects of the coronavirus (COVID-19). Of particular importance to those with existing SBA loans is Section 1112 of the CARES Act.



Section 1112 provides a 6-month subsidy for existing (and certain new) SBA borrowers whose loan is not currently in default. More specifically:

- where the subject loan is made before March 27, 2020 and it IS NOT currently in deferment, the SBA will make all regularly scheduled payments of principal, interest and associated fees (if any) for the 6-month period beginning with the first payment coming due after March 27, 2020;
- where the subject loan is made before March 27, 2020 and it IS currently in deferment, the SBA will make all regularly scheduled payments of principal, interest and associated fees (if any) for the 6-month period beginning with the first payment coming due after the expiration of the deferment period; and
- where the subject loan is made after March 27, 2020 and before September 27, 2020, the SBA will make all regularly scheduled payments of principal, interest and associated fees (if any) for the 6-month period beginning with the first payment coming due after the commencement of the loan.

The above subsidy would apply to any SBA guaranteed loan granted under Section 7(a) of the Small Business Act (15 U.S.C. 636(a); including the Community Advantage Pilot Program but specifically excluding any “Paycheck Protection Program” loans), title V of the Small Business Investment Act of 1958 (15 U.S.C. 695 et seq.), or section 7(m) of the Small Business Act (15 U.S.C. 636(m)). Moreover, qualifying borrowers will be relieved from any obligation to pay, or otherwise reimburse the SBA for, the amounts paid by the SBA pursuant to the foregoing.

Section 1112 specifically assumes that all borrowers have been adversely affected by COVID-19 and thus appears to apply to all qualifying borrowers without the need to apply or take further action. Accordingly, borrowers with existing qualifying SBA loans which are not currently in deferment should be relieved from making their next payment under such loan. **YOU ARE STRONGLY URGED TO CONTACT YOUR RESPECTIVE LENDER TO CONFIRM THAT YOU QUALIFY UNDER THIS PROGRAM BEFORE SKIPPING ANY PAYMENT UNDER YOUR LOAN.**

We will continue to follow this and the other CARES Act programs and offer updates as further developments arise. If you have any questions, please contact Anthony Zeoli or another member of the Freeborn & Peters LLP Corporate Practice Group, and stay tuned for more developments on [Freeborn’s COVID-19 webpage](#).

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Tony concentrates his practice in the areas of banking and commercial finance, securities, real estate, and general corporate law. Anthony is also an industry leader in the areas of crowdfunding, blockchain, securities based cryptocurrency/token offerings, peer-to-peer (P2P) lending, and Regulation A+ offerings. He also personally drafted the Illinois intrastate crowdfunding exemption, which was unanimously passed into law by the Illinois House of Representatives.

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