AMA

CARES Act/COVID 3.5: Loans & other financial assistance for physician practices

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The “Coronavirus Aid, Relief, and Economic Security (CARES) Act”, enacted in March, includes several significant programs and resources that will benefit physicians and physician practices. This fact sheet provides information and links to resources about programs that are available through the Small Business Administration (SBA) and Department of Treasury, as well as some additional tax provisions intended to assist physicians immediately. More information on how to apply for a small business loan is available on the SBA’s Coronavirus (COVID-19): Small Business Guidance & Loan Resources website and at the U.S. Department of Treasury’s website.

COVID 3.5: The latest COVID-19 relief bill, the “Paycheck Protection Program and Health Care Enhancement Act,” was signed into law by President Trump on April 24. The bill provides $484 billion in additional funding to replenish and supplement key programs under the CARES Act, including the Paycheck Protection Program (PPP), small business disaster loans and grants, hospitals and health care providers and testing. Learn more in the summary of the COVID-3.5 legislation.

The CARES Act established or expanded several loan programs intended to provide liquidity to businesses, including physician practices: (1) the Paycheck Protection Program for small businesses; (2) the Coronavirus Economic Stabilization Act (CESA), which created the Main Street Lending Program and authorizes the Federal Reserve to make loans, loan guarantees, other investments and subsidies to provide liquidity for mid-size businesses with 15,000 or fewer employees for losses incurred as a result of coronavirus; (3) Emergency Economic Injury Disaster Loans (EIDL); and (4) the Small Business Debt Relief Program.

In addition, physician practices may be eligible for certain tax credits. Furthermore, physician practices are eligible for economic relief under the Department of Health and Human Services Public Health and Social Services Emergency Fund. Below is a summary of these with links to additional information and applications.

Loan application information

The Borrower Application Form for the new small business loan program is now available and small businesses and sole proprietors can begin applying April 3, 2020. Physicians can also contact their local SBA District Office.

- Apply for an SBA loan (PDF)
- Apply for forgiveness of your PPP loan (PDF)
- View Interim Final Rule 1 (PDF)
- View Interim Final Rule on applicable affiliation rules (PDF)
- View Interim Final Rule on additional eligibility criteria and requirements for certain pledges of loans (PDF)
- View Interim Final Rule on requirements for promissory notes, authorizations, affiliation and eligibility (PDF, updated April 24, 2020)
- View the Treasury FAQ (PDF, updated April 23, 2020)
- Contact your local SBA district office
- Find a local SBA lending institution

SBA's new loan program for small businesses

Small businesses, including physician practices, with no more than 500 employees are eligible to apply for the SBA's new Payroll Protection Program. The PPP allows a small business to apply to an SBA-approved lender for a loan of up to 250 percent of the business' average monthly payroll costs to cover eight weeks of payroll as well as help with other expenses like rent, mortgage payments and utilities. The maximum loan amount is $10 million.

Sole-proprietors, independent contractors and other self-employed individuals are eligible. A loan can be forgiven based on maintaining employee and salary levels. For any portion of the loan that is not forgiven, the terms include a maximum term of 10 years and a maximum interest rate of four percent. This program is retroactive to February 15, 2020 and available through June 30, 2020. All current SBA 7(a) lenders are eligible lenders for PPP, and the Department of Treasury will also oversee authorizing new lenders.

On May 15, the SBA released the PPP loan forgiveness application, along with instructions (PDF) and worksheets to guide borrowers.

Important: Eligible small businesses and sole proprietors can apply for PPP loans from existing SBA lenders beginning April 3, 2020; independent contractors and self-employed individuals can apply for such loans beginning April 10, 2020. View the small business owner's guide to the CARES Act.

Emergency economic injury disaster loans

Physician practices with not more than 500 employees also are eligible for an “emergency” EIDL. EIDLs are lower interest loans of up to $2 million, with principal and interest deferment available for up to four years, that are available to pay for expenses that could have been met had the disaster not occurred, including payroll and other operating expenses. An eligible entity that has applied for an EIDL loan can request an advance on that loan, of not more than $10,000, which the SBA must distribute within three days.

Advance payments may be used for providing paid sick leave to employees, maintaining payroll, meeting increased costs to obtain materials, making rent or mortgage payments and repaying obligations that cannot be met due to revenue losses. If a small business receives a PPP loan that is forgiven (see above), any advance amount received under the emergency EIDL would be subtracted from the amount forgiven in the PPP loan.

Can a small business get an EIDL and a PPP loan?

Yes, small businesses can get both an EIDL and a PPP loan as long as they do not cover the same expenses. Physicians should consult with their lender before applying for both types of loans.

Main Street Lending Program for mid-size practices

Title IV of the CARES Act includes a subtitle called the Coronavirus Economic Stabilization Act (CESA), which created the Main Street Lending Program and authorizes the Federal Reserve(working with the Treasury Department) to make loans, loan guarantees, other investments and subsidies to provide liquidity for small and mid-size businesses for losses incurred as a result of coronavirus.

This program is designed to encourage lenders to make up to $600 billion in low interest loans to eligible businesses with 15,000 or fewer employees during the current period of financial strain by supporting the provision of credit to such businesses. Updates regarding this program, including the official launch date, will be made available on the Federal Reserve’s Main Street page. See their Main Street Lending Program FAQ for additional details. This program will be available until September 20, 2020, unless extended.

To be eligible, businesses, including physician practices, must has 15,000 or fewer employees, must have been established prior to March 13, 2020; must have been in sound financial condition prior to the onset of the COVID-19 pandemic; and must be legally formed entities that are organized for profit as a partnership, a limited liability company, a corporation, an association, a trust, a cooperative, a joint venture with no more than 49 percent participation by foreign business entities or a tribal business concern.

The minimum loan amount is $500,000. Loans will have an adjustable interest rate of LIBOR (1 or 3 months) plus 300 basis points (see Term Sheets for terms specific to each facility), and a four-year maturity. Prepayment is permitted at any time without penalty. Principal and interest payments can be deferred for one year (unpaid interest will be capitalized).

These loans do not have the forgiveness provisions as in the PPP loans.

To obtain a loan under this program, an eligible borrower must submit an application and any other required documentation to an eligible lender.

On April 30, the Federal Reserve released new details that define the scope and eligibility for this program and released term sheets for the three facilities (the “Facilities”) that will be used to operationalize the program, namely the:

- Main Street New Loan Facility (the “MSNLF”)
- Main Street Priority Loan Facility (MSPLF)
- Main Street Expanded Loan Facility (the “MSELF”)

The maximum size of the loan is calculated as follows:

- For the MSNLF: maximum loan size that is the lesser of (i) $25 million or (ii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed four times the borrower’s adjusted 2019 earnings before interest, taxes, depreciation, and amortization (“EBITDA”)
- For the MSPLF: maximum loan size that is the lesser of (i) $25 million or (ii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed six times the borrower’s adjusted 2019 EBITDA
- For the MSELF: maximum loan size that is the lesser of (i) $200 million, (ii) 35% of the borrower’s existing outstanding and undrawn available debt that is *pari passu* in priority with the loan and equivalent in secured status (i.e., secured or unsecured), or (iii) an amount that, when added to the borrower’s existing outstanding and undrawn available debt, does not exceed six times the borrower’s adjusted 2019 EBITDA

For more information, review the Federal Reserve FAQs on the Main Street Lending Program.

The total amount of credit extended via the Facilities in the aggregate is expected to be up to $600 billion.

Borrowers under this program must make a good-faith certification that:

- The uncertainty of economic conditions as of the date of the application makes necessary the loan request to support the ongoing operations of the recipient.
- The funds it receives will be used to retain at least 90 percent of the recipient's workforce, at full compensation and benefits, until September 30, 2020.
- The recipient intends to restore not less than 90 percent of the workforce of the recipient that existed as of February 1, 2020, and to restore all compensation and benefits to the workers of the recipient no later than 4 months after the termination date of the public health emergency declared by the Secretary of Health and Human Services on January 31, 2020, under section 319 of the Public Health Services Act (42 U.S.C. 247d) in response to COVID–19.
- The recipient is an entity or business that is domiciled in the United States with significant operations and employees located in the United States.
- The recipient is not a debtor in a bankruptcy proceeding.
- The recipient is created or organized in the United States or under the laws of the United States and has significant operations in and a majority of its employees based in the United States.
- The recipient will not pay dividends with respect to the common stock of the eligible business, or repurchase an equity security that is listed on a national securities exchange of the recipient or any parent company of the recipient while the direct loan is outstanding, except to the extent required under a contractual obligation that is in effect as of the date of enactment of this Act.
- The recipient will not outsource or offshore jobs for the term of the loan and 2 years after completing repayment of the loan.
- The recipient will not abrogate existing collective bargaining agreements for the term of the loan and 2 years after completing repayment of the loan.
- That the recipient will remain neutral in any union organizing effort for the term of the loan.

For recipients of Title IV funds, there are special rules on employee compensation that apply.

- No officer or employee earning more than $425,000 in 2019, can receive 1) pay increases or 2) severance upon termination of employment exceeding twice the maximum compensation received in 2019 (for funds under Section 4003, this requirement is from the date the agreement is executed until one year after the loan or loan guarantee is no longer outstanding; for funds under Section 4412, this requirement is from March 24, 2020, to March 24, 2022).

> No officer or employee whose 2019 total compensation exceeded $3 million may receive total compensation in excess of $3 million and 50 percent of the excess over $3 million that they received in 2019, including salary, bonuses, awards of stock and other financial benefits.

Title IV also clarifies that the Federal Reserve retains the discretion to establish a “Main Street Lending Program” or similar program that supports lending to “small and mid-sized businesses” on terms consistent with the Federal Reserve’s authority under Section 13(3) of the Federal Reserve Act. Details on this provision are not yet available.

Note: A borrower that receives a loan through the SBA’s PPP is eligible for Main Street Lending program loan if it meets the eligible borrower criteria.

Small business debt relief program

This program will provide immediate debt relief to small businesses with non-disaster SBA loans, e.g., 7(a), 504 and microloans. SBA will cover all loan payments on these loans, including principal, interest and fees, for six months. New borrowers are eligible for this relief if they take out loans within six months of the President signing the law.

Small business tax provisions

The CARES Act includes changes to taxes and tax policies that could benefit physician practices. These changes include an employee retention tax credit if the practice’s business operations were fully or partially suspended due to a COVID-19 shut-down order, or gross receipts declined by more than 50 percent compared to the same quarter in the prior year. Eligible businesses can get a refundable 50 percent tax credit on wages up to $10,000 per employee. The credit can be obtained on wages paid or incurred from March 13, 2020, through Dec. 31, 2020.

Another provision allows taxpayers to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021 and the other at the end of 2022. The employee retention credit and the tax deferral are not available to employers whose PPP loans are forgiven. Physicians should consult with their tax professional to determine if these benefits or others apply to their practice.

Public health and social services emergency fund

The CARES Act includes relief to physician practices who are suffering financial loss due to COVID-19 by designating funding for the Department of Health and Human Services (HHS) Public Health and Social Services Emergency Fund.

On April 10, 2020, HHS announced the immediate disbursement of the first $30 billion out of the $100 billion of this fund that Congress allocated to hospitals, physicians, and other health care providers. This initial $30 billion is being directed to hospitals and physician practices based on their share of Medicare fee-for-service spending.

The total amount of Medicare FFS spending in 2019 was $484 billion. Hypothetically, if a Medicare provider with a Taxpayer ID Number (TIN) accounted for 1% of total Medicare FFS spending in 2019, the TIN would receive 1% of the $30 billion. All facilities and health professionals that billed Medicare FFS in 2019 are eligible for the funds. **These are grants, not loans and do not have to be repaid.** Note that the funds will go to each organization's TIN which normally receives Medicare payments, not to each individual physician.

The automatic payments will come to the organizations via Optum Bank with "HHSPAYMENT" as the payment description. The funds may be used either for health care related expenses or for lost revenues that are attributable to coronavirus. Recipients will need to attest to certain terms and conditions (PDF) within 30 days of receiving their grant. The CARES Act Provider Relief Fund Payment Attestation Portal exit disclaimer icon is now open.

Additional details about the allocation are available.

The CARES Act Provider Relief Fund also issued clarifying guidance on how individual physicians can receive grant funds. By law, the funds reimburse eligible organizations, facilities and physicians for lost revenues and increased expenses attributable to COVID-19. Download the Stimulus Guidance for Physicians resource (PDF) to understand how individual physicians can receive grant funds from the CARES Act Provider Relief Fund.

Check back for updates

The information on this fact sheet will be updated as new information becomes available.

Additional CARES Act-related articles

- What the CARES Act means for physicians & medical students
- CARES Act: Medicare advance payments for COVID-19 emergency
- CARES Act: AMA COVID-19 pandemic telehealth fact sheet
- CARES Act: Medicare’s COVID-19 advance payment program FAQs