# Q & A: Churches and the CARES Act 2020

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The economic relief program known as CARES (Coronavirus Aid, Relief, and Economic Security) may be an opportunity for financial relief from the federal government that would benefit churches.

The law is articulated in hundreds of pages, but the basics are outlined in the following Q & A document to give a top-level understanding to many who are asking. We are recommending you get up to speed as quickly as possible, and then take advantage of this as soon as you are able.

***NOTE:*** *Auxano is not legal counsel nor making any recommendations beyond urging churches to learn more about and pursue the possibility of relief offered by the federal government through lending institutions.*

**What is this economic relief act doing that may impact churches?**

Between now and the end of June, 100% federally-backed loans become available to help pay operational costs like payroll, rent, health benefits, insurance premiums, utilities, etc. Though conditions apply, these loans are forgivable. And because it includes non-profits, churches are likely eligible.

**What banks and lenders can offer these loans?**

The Department of Treasury will allow lenders currently authorized to make loans (under the Small Business Administration’s current loan program) and may choose to give similar authority to other lenders.

**Are Churches eligible for these loans?**

In addition to “small business concerns” as currently defined under the SBA, eligible businesses for the new program include any business concern, **nonprofit organization**, veterans’ organization, or Tribal business if it employs not more than 500 employees (includes full-time, part-time, and those employed on other bases).

**How much money can an organization borrow?**

The maximum loan amount is capped at $10 million but that will not apply to most churches because the calculation for the loan amount is 2.5 times average total monthly payroll costs incurred in the one-year period before the loan is made.

NOTE: What **may** apply to new churches (church plants) is the provision that accommodates businesses that *were not in existence during the period from February 15, 2019 to June 30, 2019* who will calculate 2.5 times the average total monthly payroll payments from January 1, 2020 to February 29, 2020;

**Is there any “fine print” involved in securing and using this money?**

* The loan is needed to continue operations during the COVID-19 emergency;
* Funds will be used to retain workers and maintain payroll or make mortgage, lease, and utility payments;
* The applicant does not have any other application pending under this program for the same purpose; and
* From February 15, 2020 until December 31, 2020, the applicant has not received duplicative amounts under this program.

**What may the money be used for?**

* Payroll costs with some exceptions (employees who make more than $100k prorated for the covered period, employees who reside outside of the US, sick and family leave wages).
* Group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums;
* Salaries, commissions, or similar compensations;
* Payments of interest on mortgage obligations;
* Rent/lease agreement payments;
* Utilities; and
* Interest on any other debt obligations incurred before the covered period.

**When must the borrowed money be paid back?**

The law states that organizations that have a pending or approved loan application under this program are presumed to qualify for **complete payment deferment relief** (for principal, interest, and fees) for six months to one year.

**Are some of these loans going to be forgiven, meaning they do not need to be paid back at all?**

Yes - there are loan forgiveness provisions. That is, what will be forgiven (not paid back to the lender and government) is equal to the following costs incurred and payments made during the covered period:

* Payroll costs;
* Interest payments on mortgages;
* Rent; and
* Utility payments.

**What would trigger the need to pay back the loan or a portion of it?**

Suffice it to say that the law should be read carefully, but the purpose of the loan is to keep people employed. Therefore there is a disincentive to reducing staff at this time. Forgiveness amounts will be reduced for any employee cuts or reductions in wages. The actual calculations are included in the law and have to do with FTE (Full Time Equivalent) employee numbers.

**What documentation is needed for loan that can be forgiven?**

There are some required processes to apply for loan forgiveness. Borrowers seeking forgiveness of amounts must submit to their lender –

* Documentation verifying FTEE on payroll and their pay rates;
* Documentation on covered costs/payments (e.g., documents verifying mortgage, rent, and utility payments);
* Certification from a business representative that the documentation is true and correct and that forgiveness amounts requested were used to retain employees and make other forgiveness-eligible payments; and
* Any other documentation the Administrator may require.

**What can a church do today to prepare to take advantage of this program?**

The loan amount possible is based on the average monthly payroll expense over the 12 months prior to the loan amount. First, churches can start preparing a payroll spreadsheet that breaks out these expenses for the previous twelve months. Second, since the forgiveness terms of that loan are based on the ration number of FTEs (Full Time Equivalent) begin to assemble documentation for FTEs in 2019 and 2020.

**When does this program start and when could churches receive funds?**

Banks and lenders will need a period of time to prepare and understand the terms of the program, as it is late breaking and dynamic at this point. The earliest a lender would likely be ready for a conversation would be April 3, 2020. Funds would be deposited into the church’s account within days of the application being processed and approved.

**What are some of the other *technical features* of these loans?**

Similar criteria is used for other Small Business loans, but in this case, there are some unique features:

* They cannot require any personal guarantees or collateral
* Interest is not to exceed 4%
* No subsidy recoupment fee nor prepayment penalties
* The lender has no recourse against any person for non-payment unless that individual uses the money for unauthorized purposes.

**Did the charitable deduction rules and limitations just get changed as well?**

Yes – there is less limitation on individuals and corporations – this is good news for churches. The CARES act relaxed some of the limits by suspending the 60% adjusted gross income limitation on individuals and increased it to 100% (this is especially advantageous to major donors). As well, the law increased the lifted the limitation on corporations from 10% to 25%.

**Are there resources that allow for even more explanation?**

New articles, blogs and updates are happening daily. A few recommended resources (again, short of reading the hundreds of pages of the actual law) are Inside Charity and the EFCA:

<https://insidecharity.org/2020/03/28/cares-act-for-nonprofits/>

<https://www.ecfa.org/Content/How-the-COVID-19-Economic-Stimulus-Bill-Affects-Churches-and-Nonprofits>