

Loan Financing Alternatives and Structuring Considerations in Light of COVID-19

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In light of the pandemic, there are borrowing alternatives and loan structuring considerations to improve your organization's financial position. Consider these 10 action steps to protect your company, secure capital and gain financial flexibility.

1. **Rerun your 2020 forecast for financial and taxable income.** A sudden drop in business volume could turn a profit into a loss and reduce the amount of estimated taxes the IRS and states require the business to pay. Work with your tax professional to recalculate your 2020 taxable income, and, therefore, your estimated income tax payments. Make adjustments as appropriate.
2. **Consider the optimal time to file your 2019 income tax returns to maximize your cash flow.** The U.S. Treasury Department and Internal Revenue Service have announced special tax filing and payment relief to individuals and businesses in response to COVID-19. The filing deadline for tax returns has been extended to July 15, 2020 (from April 15, 2020). If you have not filed your 2019 income tax return yet, consult with your tax professional to determine the optimal time to file. If you owe taxes, consider deferring filing until July 15. If you are entitled to a refund, you might want to file now.
3. **Consider the Small Business Administration's (SBA) [Disaster Loans](#)** if your business has been impacted by the coronavirus and you are located in one of the eligible "disaster areas." The SBA's loan offer is for up to \$2 million in assistance per small business or not-for-profit. The interest rate is currently 3.75% for small businesses and 2.75% for non-profits. The SBA's requirements include showing that the desired funds are not available from the resources of any individual or entity owning 20 percent or more of the applicant. The SBA will require the use of the owner's liquid assets as an injection to reduce the SBA loan amount when that owner's liquid assets exceed the designated amounts.
4. **Consider an SBA Express Loan.** Loans can be granted up to \$350,000 of capital in the form of either a term loan or line of credit. Rates for SBA loans (in general) typically range from a maximum of 9.75% to 12.75%, as per SBA mandate, and vary based on the loan amount and other criteria. Borrowers can typically obtain the loan funds within one to two weeks from submitting the complete application. The government's stimulus package could raise the loan amount and the borrower's guarantee percentage.
5. **Review your existing loan agreements for restrictive covenants and in particular "Limitation on Indebtedness."** Most loan agreements, in particular bank loans, limit a company's ability to borrow more money and funds from other lenders. Consult your advisors to gain an understanding of how such restrictions could impact your business' ability to borrow.
6. **Review your existing loan agreements for "Lien Restrictions."** Often, banks and other senior lenders, place a blanket lien on all the company's assets. This protects the lender from other creditors attaching the company's assets ahead of the lender. If you want to borrow additional funds, consider requesting a waiver or "carveout" for "purchase money mortgages," "leases" and "sale leasebacks."
7. **If you borrow money from different lenders or borrow money in a facility that has different classes, get a handle on the "intercreditor rights."** These terms dictate which lenders take precedence over other lenders and can impact your ability to borrow and potential ways you have to deal with your lenders.

8. **Analyze equipment leasing and sale leasebacks.** The equipment leasing market is a relatively large and liquid market. A leasing company, which could be a division of your commercial bank, specializes in financing equipment. Instead of entering into a loan agreement with you, the leasing company leases the equipment to you. Your business pays rent to the leasing company. The leasing company is also called a “lessor.” The term of the lease is based on the equipment’s economic useful life. One benefit to leasing is that the lease typically finances 100% of an asset’s fair market value. There are some drawbacks with leasing; in particular if the leasing company owns the equipment for income tax purposes, they take tax deductions for depreciation. In this case, a termination of the lease, casualty, or sale of the equipment, triggers recapture of the depreciation. On the other hand, finance leases are more like a loan financing, which could provide funds and a degree of flexibility.
9. **Track payroll law legislative relief from Washington, D.C.** Currently, Congress is discussing providing relief to businesses impacted by the coronavirus. Such relief could include a deferral of the requirement to pay payroll taxes. We will keep you up-to-date on new developments from Washington D.C.
10. **Consult the experts.** Meet with your advisors, credit providers and investors to manage your financial obligations and commitments.

Visit our [COVID-19 Resource Center](#) for more news and insights on related topics.

For additional information on Disaster Loans, contact the SBA disaster assistance customer service center. Call 1-800-659-2955 or e-mail disastercustomerservice@sba.gov or, visit www.sba.gov.

For additional information on developments regarding payroll tax relief, call your payroll service or visit [ADP's website](#).

Contact Us

PKF O'Connor Davies can help you prepare your company and the documents necessary to obtain loan financing. We can also help you restructure your loans and business. For more information, please contact either of the following:

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