



# HOW SMALL LAW FIRMS IN TEXAS CAN BENEFIT FROM THE \$2T STIMULUS PACKAGE

BY PHILIP SILBERMAN

Small law firms across Texas have been crippled because of “stay-at-home” and “shelter-in-place” orders due to the coronavirus pandemic. Most recently, Gov. Greg Abbott signed an executive order consolidating its local predecessors and limiting non-essential activity until April 30, 2020. To rescue America’s economy, the federal government recently passed into law the CARES Act, a \$2 trillion stimulus package.

The 880-page law and guidance documents provided by the Small Business Administration, or SBA, are complex; however, the most important sections of the law are Section 1102, titled Paycheck Protection Program, and Section 1106, titled Loan Forgiveness. Most critically, these sections provide access to \$349 billion of capital to small law firms and businesses, much of which can be completely forgiven if used in the correct ways. Below are some critical facts about the law.

## Who Can Apply?

Small businesses (entities or individuals), including law firms and nonprofits, with no more than 500 employees.

## How Much Money Can a Law Firm or Business Borrow?

Loans can be for up to two months of a law firm’s or business’s 2019 average monthly payroll costs plus 25%. Loans are capped at \$10 million.

## Will the Loan Be Forgiven?

Monies used during an eight-week period after loan origination for things like payroll costs, rent, and utilities will be eligible for complete forgiveness. It is likely that not more than 25% of the total loan may be used for expenses other than payroll costs to qualify for forgiveness. Forgiveness of debt is also tied to retaining employees and maintaining salary levels. The principal sum forgiven is nontaxable by the IRS.

## What Are the Terms of the Loan?

The rate of interest on unforgiven amounts will accrue at a fixed rate of 1%, and the loan is for a term of two years. No collateral or personal guarantees are required for the loan.

Payments are deferred over six months, but interest will accrue during the entire life of the loan. There is no prepayment penalty associated with the loan.

## How Can a Law Firm or Business Apply?

Law firms or businesses can apply at any SBA-approved lender or FDIC-insured institution—essentially any bank. Law firms or businesses can visit [sba.gov](http://sba.gov) for a list of SBA lenders.

## When Can a Law Firm or Business Apply?

Applications will be taken through June 30, 2020. Law firms and businesses are encouraged to apply as early as possible because the program is limited.

## How Can Loan Forgiveness Be Requested?

Law firms and businesses may submit an application for forgiveness with the lender that originated the loan, and lenders must make a decision on forgiveness within 60 days.

## Conclusion

The CARES Act essentially provides free money to small law firms and businesses in Texas; however, funds must be used in compliance with the act for debt to be forgiven. Taking out these loans based on the forgiveness component is not without risk. This type of loan has never been offered by the federal government before, and there is no precedent for lender decisions on forgiveness. Businesses that fail to manage payroll expense and other fixed costs in combination with the use of these loans as a calculated risk could find themselves with insurmountable business challenges. The law is complex, and a competent business lawyer should be used to navigate the application process and to monitor use of loan proceeds. **TBJ**



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