

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 10: SBA Loan Program Update—SBDC

(32:28; published April 30, 2020)

Description: *Joel Youngs, regional director with the Small Business Development Center in Davenport, provides an update on the EIDL, PPP, and SBDC services available at this time. Topics include direct business services, technical assistance, and the loan process. Host Steve Adams also provides some status updates on similar business assistance programs.*

Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:54

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 01:29

I'm Steve Adams, field specialist at Iowa State University Extension and Outreach, Community and Economic Development and your host for these podcasts. Today, our guest is Joel Youngs, regional director of the Iowa Small Business Development Center in the Davenport office. Thank you for being here today, Joel.

Joel Youngs 01:53

Thanks for having me, Steve. I really appreciate the opportunity to get the word out to our Iowa small businesses. It's been a burden we've had this spring but, you know, with all the resources that the government is offering to provide, and the entrepreneurial spirit that exists in Iowa, I think we can get through this.

Steve Adams, host 02:15

Excellent. Well, I know and in this podcast series in particular, we've talked about various programs offered by the US Small Business Administration, specifically under the CARES Act. And also two things known as the Paycheck Protection Program, also known as PPP, and the Economic Injury Disaster Loan program, also known as EIDL or E I D L. So Joel, just to kind of get us started, can you



share some information about your experience with these programs over the past month? I know it's just been absolutely crazy. But, you know, have people received their money? Do you feel like the programs are working as they were originally laid out or not?

Joel Youngs 03:03

Short answer is yes, people are receiving money. What I would like to though Steve, with your permission, is to break it down into two components. Let's discuss the Economic Injury Disaster Loans or EIDL first. That program was the first one that came aboard. People applied for that on the website, SBA.gov. And I mention that website again because some people have received their advance money but they haven't gotten their loans yet.

Joel Youngs 03:36

Frankly, there was on a nationwide scale, there was more demand than there was available money and there was a huge rush to apply for those funds. However, I have been hearing from our local Iowa businesses that people have been communicated with and have gotten the EIDL advance loans. And what I mean by that is this, is that business owners were eligible to receive \$1,000 per employee that they have, so up to a maximum of \$10,000. So I just had an email this morning from a client that got \$8,000 deposited into their account. However, that doesn't mean that they got their loan for the rest of what they asked for.

Joel Youngs 04:29

And what EIDL funds were set up to do was to pay for operating costs for a small business. It did run out of money. With this latest bill that passed Congress and was signed last Friday by President Trump, those funds were replenished. And so the SBA is working through in order of receipt, application received, all of those funding requests. So that's what's happening with the EIDL. Do you have any questions about that, Steve, before I move on to talk a little bit about PPP?

Steve Adams, host 05:13

Well, I have some of the same experience there, Joel, in that a lot of businesses I've talked about said that their EIDL money was in and it came relatively quickly. Not so much with the PPP program, which has been a bit of an issue as well. I've also heard kind of horror stories about long wait times on the phone trying to reach somebody to find out if the application that actually been received or not, and I don't know, are hearing some of those same stories out in the field?

Joel Youngs 05:46

I did, but it often really depends on when people were trying to call. I've heard as few as four minutes and I've heard as much as six hours. Having said that, the farther that we are removed from the start of this process, the more it's a reasonable wait time. I would say right now, the wait time is usually less than 30 minutes. So that's not too bad, considering it's a national 1- 800 number. So and the people that do answer the phones are very informative and receptive about answering all of the business owners' questions. I'm getting that positive feedback as late as even today that people are happy with the answers that they're getting, when they call that 1- 800 number.

Steve Adams, host 06:32

Now, you mentioned what the EIDL program could be used for, and I think there's a little confusion out there as well, Joel, that some folks think they can use that for payroll, but they can't. That's not the intent there, correct? That's what that's what the Paycheck Protection Program is for, or the PPP.

Joel Youngs 06:49

Yes, just before I leave EIDL, basically, it's operating expenses, and it's going to be a loan. But it's a 30 year payback, 3.75% for for-profit businesses is the interest rate, 2.75% interest rate for nonprofits.

Nonprofits were eligible to apply for the EIDL loan. And the first payment is not due for 11 months. I just spoke to a business owner today who was a an optometrist office. And she goes, Joel, she said, I'm not really sure that I want to take on that loan. And her dollar amount that we calculated was going to be approximately \$150,000. Her payment would be about \$694 a month. I sent her I said, hey, there's no early prepayment penalty. If you end up not needing at all, just pay it back. It's a very low interest rate. It's spread out over 30 years. It's a good insurance policy just to have money in your pocket to cover those operating expenses.

Joel Youngs 07:54

And that's how she, when she applied, she specifically put all of operating expenses on the EIDL side, and she did not put any... she only use the PPP for payroll purposes. And that was, in my opinion, for most business owners, probably the really smart way to do that. Now, that's not going to be true for everyone. But I would say probably 90% of the small businesses now, be the way to do that. Because then there's no mixing of funds. The PPP, the reason why you didn't want to mix those funds, that is eligible if you meet all the criteria, for loan forgiveness.

Joel Youngs 08:32

So the way that program worked, you actually applied for that with your local lender, who is an SBA-approved lender, and you got two and a half months of payroll. Because it was a wildly disseminated being able to go to your own lender instead of having to funnel all the applications through the SBA and having them review the loan applications, people have actually gotten their PPP money already. In fact, depending on their lender, they might even have gotten an answer. They may not have gotten their money yet, but they may have gotten an answer within the same day that they applied.

Joel Youngs 09:09

So we, the feedback that I'm getting from my small business owners is they're very happy with how that process worked. The first few days, it was a little clunky, a little wonky. But that was just because of everybody scrambling to put something in place to be able to get money in the hands of those small business owners. So the rules regarding the PPP was this, from the time you got your money, you had 56, you have 56 days to spend that amount of money on payroll. And if you eliminate to payroll and spend at least 75% of that money that you received on payroll within that 56 days, you then get to ask your lender for loan forgiveness of the whole enchilada.

Joel Youngs 09:56

So that's really exciting news for our small business owners. It acts as a quote unquote grant rather than a loan. If you don't make the 75% threshold, there'll be a sliding scale of forgiveness. Unfortunately, we don't know yet what the sliding scale is going to be. So we're encouraging all small business owners to do everything that they can to get that 75% of the loan amount spent on payroll within the 56-day period. The first payment on that is not due for six months, so you'll get a chance to ask for the loan forgiveness before any payment is made. Now, if you fail to get that payroll spent on payroll, worst-case scenario is, you're going to have to pay the loan back, in which case it's going to be a two-year term at one percentage.

Steve Adams, host 10:52

So the percentages is worked out pretty well there, but the term is much shorter, but they need to kind of keep that in mind as they go through this. I had a couple of questions, Joel from one of my local businesses, one in particular from a restaurant here in in town. As you know, the governor's lifted some of the restrictions on restaurants. He was wondering if he brought employees back and had his PPP money but was able to make payroll through what the restaurant was doing in business, should he send that money back in? Or should he continue maybe to meet full-time payroll for those FTEs out there, or any advice in that regard?

Joel Youngs 11:33

This program is designed to help business owners who can't really make those payments. So the scenario you gave me actually would be one of very few kinds of scenarios that I've heard. There are some business owners that go look, I got the loan, turns out I don't really need it. Okay, well then, turn it back in. However, having said that, we only know where we're at right now. The background that I have on my screen is a three-inch snowstorm that hit my home on April 16, 14 days ago. Today, it's 72 degrees. I don't know, on any given day where I'm going to be: three inch snowstorm, 72 degrees. That's going to be true for the small business owner as well.

Joel Youngs 12:22

I would say you want to use those PPP funds to pay for your payroll as it's meant to be used for, and then hit that 75% threshold so that you can get loan forgiveness. Because you don't know six months from now, next winter, what are we going to be facing? And we don't know what programs are going to be available out there to help you. All we know is what we have today. I would say let's be smart. Let's be prudent. Let's use the tools that we have under control today. Does that make sense?

Steve Adams, host 12:58

It does, and you mentioned that 75-25% ratio, 75% being used for payroll. What can the 25% be used for, Joel, just in case our listeners don't know.

Joel Youngs 13:11

So if you remember we talked about the EIDL loan being designed specifically for operational expense. When the PPP was created, there was recognition that not everybody was going to apply for an EIDL loan. And so there was some, there's some pieces that you could be applying for in your EIDL loan to cover rent, some mortgage payments, utility costs, that kind of thing. However, again, I need to caution you, if you applied and are receiving monies from both pools of money, if you mix the purpose on both of them, you're going to end up having to pay money back and you're going to end up costing you some loan forgiveness.

Joel Youngs 14:00

So I really encourage people, if you've applied for both, keep it separated using EIDL funds for operational expenses, PPP for payroll protection. But again, if you only did the PPP, did not do the EIDL, then that's what that 25% can be used for. And I would encourage you to do that. Because again, you only need to use 75% of the loan amount that you receive for payroll purposes within the 56 days of receiving the money.

Steve Adams, host 14:32

We also talked about, you know, you never know where you're going to be in any particular point in time. And I think that's a good point to make, especially in this environment. But we saw how quickly the money went out the door the first time around on the CARES Act and EIDL. You had mentioned that EIDL had been replenished, and we know that the PPP has been replenished. But today is April 28. So what kind of status do we have on that? And if I am a small business owner interested in applying for either one of those two loans, are those programs still currently available? Like I said, we went through that first round pretty quickly.

Joel Youngs 15:10

Excellent question, Steve, and you're absolutely right. And in fact, the EIDL loan is not eligible to be applied for right now. So what they have chosen to do with the money that replenished that fund is to work through a pile of applications that they have. The PPP is available to be applied for, and the way that works is, when you go in to see your lender, the lender sends off a communication to the SBA, and

that earmarks the amount of money that you're going to borrow. And so when you get that answer within a business day or two, you can be assured that the money's available for you.

Joel Youngs 15:56

So I caution people, the more you wait, and go, Well, I'll get to it next week, I've got other things to do— again, your place in line is based upon when you applied for it. And if you're approved, you'll be guaranteed on the PPP to get that money, because that's part of that earmarking. So when we ran out of the first phase of the PPP money, I literally had somebody apply 30 minutes before they quote unquote, ran out of money. They didn't receive their money. They didn't receive their loan that day, but they got approval that day. So a few days later, they were able to go into the bank and get their loan money. It will work that way this time.

Joel Youngs 16:40

So once you get your approval, you've got your earmark for the PPP. So I encourage you not to wait. But I do encourage you to talk to your local Small Business Development Center director, because he or she can give you some wonderful advice about where things are at and the current state of where we're at, because like you said, things change quickly. Today is April 28. You know, there are things that we know today that things can change tomorrow a little bit, not on anything that I've told you so far. But if I, but if you remember I said, I'm not really sure about how the sliding scale of the loan forgiveness is going to work yet, because they haven't made that ruling. At some point, they're going to tell us, so all of the clients that I've been working with and all the clients that my fellow SBDC directors have been working with, we're going to be communicating that, reaching out to them, and letting them know so that they can plan appropriately for their business owner.

Joel Youngs 17:41

You know, I think that's one of the things, when I ran my small business for eight years, I was a planning freak. I like to take a couple times a year to just step back from my business and plan what was going to happen the next quarter what was going to happen on the next year. And by being able to do that, it allowed me to make some good decisions for my business. And that's what we're finding that most business owners want to do, is they want to remove the uncertainty if they can, so that they can try to plan on how to thrive and how to succeed as we move forward.

Steve Adams, host 18:14

Well, again, I think time is of the essence here, as you said, so people shouldn't wait. They shouldn't, you know, sit there and step away from this, this is something they need to keep an eye on every day. Now, there was a rumor circulating Joel that that if you weren't in the queue already for a possible loan, it probably was not worth your time to apply. But what I hear you saying and just your last statement is no, go ahead and get that application in, track that application, be on top of it, don't put it off. So is that good advice for our listeners?

Joel Youngs 18:52

I just had somebody applied for the PPP this morning. They got approval.

Steve Adams, host 18:55

Oh, outstanding.

Joel Youngs 18:57

You know, we encourage people to have a toolbox of people that give them counseling and advice. Those include attorneys, accountants, their lenders, their insurance agents, and most importantly, your SBDC person. We're free, we're confidential. Our whole mission is to help you be as successful as you want to be. We don't tell people how they have to do things. We only explain to them the different

ways that we see our business owners operate, and explain to them the pluses and minuses behind the choices that they've made. And what are some negatives and some things to avoid.

Joel Youngs 19:36

But everybody has to make a decision based upon what's right for them. You know, that's our mission, that's our vision, and we have very passionate people. I am very proud of my peers in Iowa. We have 15 centers spread across Iowa, so we're very easily reachable. And especially in this time of COVID-19, we're all spending many hours over and above our normal office operating hours, answering phone calls, answering emails, doing Zoom calls. And so I again, I encourage you to search IowaSBDC.org and find your nearest counselor to you.

Steve Adams, host 20:15

Okay, besides, Joel, the PPP and the EIDL program, are there other funding options that are available to Iowa small businesses today, and what other things might they consider when looking at financing?

Joel Youngs 20:30

That's an excellent question, Steve. I'm really proud of the different counties, the different cities, some of the organizations within the state offering different kinds of relief or monetary help to help small business owners. As an example, I've got revolving loan funds that exist in Jackson County, the city of Davenport, Muscatine County. Those revolving loan funds are all reaching out to the small business owners in their area and going, Hey, our program was originally designed like this, but we're trying to modify this to help you out a little bit.

Joel Youngs 21:10

And so they're coming up with some very creative ideas to help get these business owners just for the survival mode that we're in right now. Again, I'm seeing it on government levels, but I'm also seeing it on some private levels as well. So I encourage business owners to reach out to their city halls or their county governments. Or again, like I said, if you call your SBDC director, they pretty much know what's going on in their respective areas, and so they can direct you as well. So if you don't want to do the homework on your own, give us a call or send us an email. We're happy to point you in the right direction.

Steve Adams, host 21:54

I would certainly agree with you there on those revolving loan funds and again, the local ones that are available through your city, county, or your council of governments, as a gap financier or even as a direct lender are very, very valuable for people to take a look at. So Joel, again, we're big on this, at Iowa State University—are there any best practices you've seen in the past few months in regard to small business financing that you think you could share with us? What types of things should our listeners look at and really try to hit hard if they're looking at small business financing?

Joel Youngs 22:32

That's a good question as well. So again, each and every person is different. I've got a business client that makes wigs for cancer survivor patients. She only does maybe \$5,000 of revenue a year, but that's important to her. I have other people that are million dollars in sales kinds of businesses. So it's really hard to say a one-size fits all solution works for everybody.

Joel Youngs 23:06

And that's why I encourage people to reach out to our directors and our counselors, is because what we'll do is listen to what your situation is, and help you come up with some solutions that are right for you. So as much as we want to just have one solution and say, hey, that's it, we're good, that's that realistically what happens. It fits 80 to 85% of the people, but again, what if you're in that 15 or 20%?

Steve Adams, host 23:36

Alright, so Joel, again, a lot of us have had to change our business model and our typical way of doing business. Could you possibly give us an example of someone, perhaps who has pivoted, so to speak, to meet the challenge of COVID-19 and has been successful at it, or how did they go about because their business model have changed, maybe looking at a different financing option?

Joel Youngs 24:00

So I have a client that grows microgreens and vegetables for restaurants to supply restaurants there. It's fresh produce, it's locally grown, the local chefs love that product. Well, guess what? The restaurants are closed. So I'm working with her, I said to her, I said, how about if you start up a subscription-based business, and you start selling subscriptions to people, and try to bring in revenue that way? So her concern was, well, how do I market that, that's going to cost me a lot of money, it's going to take a lot of time to market it.

Joel Youngs 24:41

And I said to her, Well, how about this? What if you called up our area churches and said, Pastor, I'm interested in selling a subscription service for growing people's microgreens. You order it this week, I grow it in a week, and next week you pick it up. And I'll do is, I'll deliver to your church parking lot in large packages that people can pick up. And 10% of what I sell through your church, I will donate now to the church. If you'll send out a church newsletter and market that for me, that's my pledge to you.

Joel Youngs 25:20

She's adapting that model. She never would have thought of this, you know, normally because again, she was very happy supplying chefs in all of our area restaurants, but again, they're shut down. So what do you do? You know, I encourage every small business owner to figure out, to think out of the box. Once we get through this, what's your new normal going to be? What are you going to do to change how you operate and/or how do you market?

Joel Youngs 25:48

I spoke earlier of an eye care center. I said so when you reopen, will you have face shields and masks and gloves for everyone? Well, for some of the people. I said, how about if you do it for everyone and then market that? And you could say, Hey, I care enough about you that I'm going to go, we're doing the ultimate protection to make sure you're safe. You get to differentiate yourself from your competitors. And that can help you grow your clientele beyond where you were at before.

Joel Youngs 26:23

It also will give peace of mind to your employees. Because now they know you're doing everything that you can do to help protect them as well. Now, you don't have that person goes well, I don't know if I really want to come back to work. Because frankly, that was probably one of our, well, it is, it's one of our top concerns that many small business owners have. How do you keep and retain good help? So if you implement some of these cautionary moves as we reopen, you're making everybody feel like they're in a safer environment. It can open up more trade for you and your business.

Steve Adams, host 27:07

Great ideas there, and, you know, certainly if people have never done deliveries before, another option might be looking at financing, perhaps, to put more vehicles or vans on the road, to make sure they can get their product back out the door.

Joel Youngs 27:22

Absolutely. Keep in mind, though, you don't necessarily have to do individual deliveries, you could do deliveries...so as an example, back to that church model, basically, it's Come on Thursdays from 9am to noon. So everybody who has made an order will show up to the church parking lot between that three-hour window to pick up your your goods and services. That way you kept your cost down on delivery. Right? You just have one person there, distributing at your stop.

Joel Youngs 27:53

So let's say they were making \$10 an hour. You got \$30 of labor costs involved instead of having them drive all over the town making individual deliveries. So you want to think about deliveries, yes, but can you set it up in such a way that you have a little bit more of a centralized delivery point? Again, it's not going to be the right solution for everybody. But each business is going to adapt and evolve if they want to thrive and survive in our in our new normal.

Steve Adams, host 28:25

I think you hit the nail on the head earlier when you said to our listeners, one size is not going to fit all. So Joel from looking at exploring some of these financial options that you spoke about today, where would you recommend they start—with you at the SBDC or some other location?

Joel Youngs 28:45

The SBDC, the Small Business Development Centers, we have a sister organization called SCORE, but both organizations have been funded by the SBA and both organizations have the ability to counsel and advise people. We're free, we're confidential, and I encourage you to reach out to get that done. Because as I...I love my bankers, we have some of the best community bankers in the country in the state of Iowa. We're very blessed. But once you say something to a banker, now it's in their head. And what happens if you didn't quite say the right thing?

Joel Youngs 29:23

So one of the one of the beautiful things, by talking to us first is, we coach you on how to say things to a banker. We're not trying to hide it, but it's sort of like dating. If I'm going to apply for a loan, I want to be putting my best foot forward. I don't want to be showing up with my hair uncombed and my shirt untucked. I want to make sure I'm putting my best foot forward. And so we encourage you to come and talk to us. Let's put together some strategic ways to go about solving your problems the way you need to have it solved. And then we figure out what professionals we need to get involved.

Joel Youngs 30:03

Sometimes it could be an attorney, sometimes it's an accountant. Sometimes it's a lender. Sometimes it's your insurance agent. It is not unusual when people come in to see me, I go, Why are you paying this rate for that? Well, I have been with the same insurance agent for 12 years. And you haven't shopped that? You're paying way more than what I've seen other other business owners pay on that. And they go, Well, I just wasn't aware of that. And so again, that's where our expertise and our commonality of working with so many business owners can help.

Steve Adams, host 30:39

I like the analogy of the dating... the one I use, Joel, is I'm like a defense attorney. I'm trying to make sure that you get the best possible sentence you can, so I'm going to build the case on your behalf.

Joel Youngs 30:54

There you go. That's good.

Steve Adams, host 30:55

So Joel, if again, you've given this website out a couple of times during the podcast, could you give it out to us just one more time?

Joel Youngs 31:03

Sure it's Iowa SBDC, that's Sam Bravo David Charlie, so Iowa SBDC.org.

Steve Adams, host 31:13

Hey Joel, thanks from us so much for joining us today and providing your insights. So if you have any questions about this Back to Business Iowa podcast, please feel free to contact me Steve Adams. And I can be reached at stadams@iastate.edu. And thank you once again for listening. Again, this podcast is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. Always serving Iowans, hashtag strong Iowa. Our justice statement: This institution is an equal opportunity provider. For the full nondiscrimination statement or accommodation inquiries, please go to www.extension.iastate.edu/diversity/ext. Thanks again, see you next time.

[music]