

# KNOWLEDGE EXCHANGE PARTNER

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## The U.S. Small Business Administration Opens Up Economic Injury Disaster Loans to Ag Businesses

On May 4, the U.S. Small Business Administration (SBA) announced that ag businesses will now be eligible for SBA's Economic Injury Disaster Loans (EIDL) and EIDL advance programs. Agricultural enterprises with 500 employees or fewer are eligible to participate.

Historically, farmers have not been eligible for SBA programs since they are expected to apply for assistance through programs offered by the U.S. Department of Agriculture (USDA). A side-by-side comparison shows the benefits of these two programs; taxpayers are permitted to apply for both. Note that if a business receives both a Paycheck Protection Program (PPP) loan and an EIDL loan, the PPP loan forgiveness amount will be reduced by the \$10,000 emergency grant from the EIDL and EIDL funds cannot be used for the same purpose as PPP funds.

Interested producers can apply directly through the [SBA](#). Unlike the PPP, this is a more traditional loan, with guarantees and collateral required depending on the amount of the loan. Another unique aspect of this loan is that applicants don't apply for a specific amount. The SBA determines the loan amount based on the financial information provided.

Up to \$10,000 of the funds will be provided in an advance grant. The remainder of the funds must be repaid to the SBA at an interest rate of 3.75% for a term of up to 30 years.

Currently, the SBA is limiting EIDL applications to agricultural businesses only. Producers must [apply directly with the SBA](#).

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	Paycheck Protection Program	Economic Injury Disaster Loans
<b>Intended purpose</b>	Retain workforce	Provide working capital
<b>Max amount of loan</b>	2.5X average monthly payroll (\$10 million max)	\$2 million (\$10,000 advance grant available) <sup>1</sup>
<b>Interest rate</b>	1%	3.75%
<b>Business start date</b>	Prior to February 16, 2020	Prior to January 31, 2020
<b>Collateral</b>	None required	None required up to \$25,000
<b>Personal guarantee</b>	None required	Guarantee may be required if over \$200,000
<b>Credit check</b>	No	Yes (or appropriate alternative)
<b>Eligible expenses</b>	Payroll costs, mortgage and other debt interest (for loans incurred prior to 2/15/2020), rent and utilities	Working capital including payroll, accounts payable, fixed-debts (rent, utilities, etc.) and other bills that cannot be paid
<b>Prohibited uses</b>	Expenses other than those included above	Refinancing long-term debt, acquisition of fixed assets, repairing physical damage, bonuses and certain owner-related compensation, federal debts except IRS obligations, relocation and expansion of facilities
<b>Loan forgiveness eligibility</b>	100% forgiveness if at least 75% of the funds used for payroll over the 8-week period after receiving the funds	\$10,000 emergency grant only (*SBA <u>should distribute</u> within 3 days of the request, although delays exist)
<b>Loan forgiveness taxable</b>	Not directly, but expenses paid with PPP funds are not deductible <sup>2</sup>	Unknown <sup>3</sup>
<b>Payment Deferral</b>	Up to 6 months	Up to one year
<b>Loan Term</b>	2 years	Up to 30
<b>Loan origination fees or prepayment penalty</b>	No	No
<b>Interaction with employee retention credit</b>	Not permitted	Permitted
<b>Interaction between PPP and EIDL</b>	PPP loan forgiveness amount will be reduced by the \$10,000 emergency grant from the EIDL	Cannot use the funds for the same purpose as PPP <sup>4</sup>

<sup>1</sup> The SBA has been limiting the \$10,000 grant by allowing only \$1,000 per employee on the books prior to January 31, 2020. Thus, employers with under 10 employees during that time will likely receive less than the \$10,000 max. Some members of Congress have been pushing the SBA to change that policy and allow the full \$10,000 for all businesses, but as of press time, the policy has not changed. Due to high demand for the program, there are reports that SBA is limiting EIDL loans to \$150,000.

<sup>2</sup> The expenses (i.e. payroll) paid with forgivable funds are not tax-deductible which effectively makes the forgiven loan taxable (IRS Note 2020-32).

<sup>3</sup> The \$10,000 emergency grant is not required to be paid back even if the taxpayer is subsequently denied for an EIDL loan.

<sup>4</sup> The SBA's interim final rule for taxpayers who received an EIDL loan between 1/31/2020 and 4/3/2020 required the business to use the PPP loan (applied for after the EIDL loan) to refinance the EIDL loan if the EIDL was used for payroll costs.

## The USDA Farmers to Families Food Box Program

As part of the \$19 billion COVID-19 relief program from the USDA, the Agricultural Marketing Service (AMS) division of the agency will be purchasing and distributing up to \$3 billion of agricultural products to those in need. This program will attempt to address multiple dimensions of the COVID-19 crisis, including the loss of institutional markets by food service distributors and farmers, as well as the increasing number of Americans who are food insecure due to the economic downturn.

AMS will partner with regional and local distributors to purchase and distribute fresh produce, dairy products and meats. The program will procure an estimated \$100 million per month in fresh fruits and vegetables, \$100 million per month in dairy products, and \$100 million per month of meats. Contracted distributors will then assemble pre-approved box assortments of these products to food banks, community organizations and other non-profits serving Americans in need.<sup>1</sup>

The approach of purchasing and distributing fresh foods marks a departure for USDA food aid programs, which in the past have exclusively handled nonperishable processed food products. Because of this, there is a lot that is relatively new and a lot of built-in flexibility in the contract solicitation from AMS. Distributors are asked to specify which region(s) they wish to serve, choosing from eight pre-defined sections of the country. Applicants do not have to provide distribution to the entire region, but may bid for a portion of a region based on their capabilities.

Recognizing the seasonality of some products, the program includes four performance periods: May 15-June 30, July 1-August 31, September 1-October 31, and November 1-December 31, 2020. The contracting distributor is responsible for establishing a network of recipients who can handle the products and further distribute the boxes to persons in need of food assistance.

Because the specific types of fresh products may vary by region and date, instead of precise product specifications, the solicitation calls on distributors to propose assortments, choosing from five categories of foods:

Item No.	Category	Examples of Products*
1	Fresh fruits and vegetables	Mixed vegetables, such as potatoes, onions, carrots, tomatoes, sweet potatoes, and mixed fruits such as apples, pears, oranges, blueberries and strawberries
2	Dairy Products	Cheeses, instant or UHT milk, yogurt, butter, fluid milk
3	Precooked Meats (Pork and Chicken)	Pre-cooked chicken nuggets, bacon, pork patties, pork or chicken
4	Combination box of the above	
5	Fluid Milk	Priced by gallons and half-gallons

Source: [https://www.ams.usda.gov/sites/default/files/media/RFP\\_ERAcquisition.pdf](https://www.ams.usda.gov/sites/default/files/media/RFP_ERAcquisition.pdf)

\*Note that these are example products only and are not all-inclusive of products that could be supplied.

Applicants must submit a product description and unit price for each proposed produce, including the item category, performance period(s) in which it would be supplied, proposed products included, weight of the box, region(s) and number of boxes supplied to each, price per box, and the shipping location(s). The products included in the boxes must be of U.S. domestic origin.

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<sup>1</sup> <https://www.ams.usda.gov/selling-food-to-usda/farmers-to-families-food-box>

The applicant must also include a description of how they intend to engage small farmers (those farms servicing local and regional interests and farmers markets), as well as their plan to effectively distribute the boxes to eligible non-profit organizations in order to maximize the number of end-recipients served.

The program also has a very compressed timeline as proposals were due on May 1, given the urgency of both the market disruptions to U.S. agriculture and the growing food assistance needs of Americans. The evaluation process is expected to be short, and USDA intends to have contractors delivering product by mid-May.

While most farmers are not in a position to apply directly for this program, there will likely be some sales opportunities for producers of the listed commodities, including small farmers. In addition to helping those in need of food assistance, it is also hoped the program will boost demand for many of these products and support market prices providing a benefit for farmers even if they are not directly supplying products.

Once contracts are awarded to distributors, AMS will supply the full list of participating distributors and their information on the [Farmers to Families Food Box Program website](#), so that both potential suppliers as well as potential non-profit partners can contact the award recipients.

#### CONTACT INFORMATION

We look forward to your questions about Knowledge Exchange Partner and your feedback:

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