

CARES Act Paycheck Protection Program

The enactment of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act opens a number of possible options to generate capital for oil and natural gas producers during this time of economic crisis.

Currently, the Small Business Administration employee and revenue limits for our industry are:

- 1,250 employees for oil production
- 1,250 employees for natural gas production
- 1,000 employees for drilling operations
- \$41.5 million gross revenue for support activities for oil and gas extraction

The FAQ content below, prepared by the U.S. Senate Committee on Small Business and Entrepreneurship, includes information on Paycheck Protection Program loan eligibility, deadlines, maximum amounts, forgiveness, interest rates and more.

Paycheck Protection Program FAQs for Small Businesses ([Source](#): U.S. Senate Committee on Small Business and Entrepreneurship)

Where can I apply for the Paycheck Protection Program?

You can apply for the Paycheck Protection Program (PPP) at any lending institution that is approved to participate in the program through the existing U.S. Small Business Administration (SBA) 7(a) lending program and additional lenders approved by the Department of Treasury. This could be the bank you already use, or a nearby bank. There are thousands of banks that already participate in the SBA's lending programs, including numerous community banks. You do not have to visit any government institution to apply for the program. You can call your bank or find SBA-approved lenders in your area through SBA's online [Lender Match](#) tool. You can call your local [Small Business Development Center](#) and they will provide free assistance and guide you to lenders.

Who is eligible for the loan?

You are eligible for a loan if you are a small business that employs 500 employees or fewer, or if your business is in an industry that has an [employee-based size standard through SBA](#) that is higher than 500 employees. In addition, if you are a restaurant, hotel, or a business that falls within the North American Industry Classification System (NAICS) code 72, "Accommodation and Food Services," and each of your locations has 500 employees or fewer, you are eligible. Tribal businesses, 501(c)(19) veteran organizations, and 501(c)(3) nonprofits, including religious organizations, will be eligible for the program. Nonprofit organizations are subject to [SBA's affiliation standards](#). Independently owned franchises with under 500 employees, who are approved by SBA, are also eligible. Eligible franchises can be found through [SBA's Franchise Directory](#).

I am an independent contractor or gig economy worker, am I eligible?

Yes. Sole proprietors, independent contractors, gig economy workers, and self-employed individuals are all eligible for the Paycheck Protection Program.

What is the maximum amount I can borrow?

The amount any small business is eligible to borrow is 250 percent of their average monthly payroll expenses, up to a total of \$10 million. This amount is intended to cover 8 weeks of payroll expenses and any additional amounts for making payments towards debt obligations. This 8 week period may be applied to any time frame between February 15, 2020 and June 30, 2020. Seasonal business expenses will be measured using a 12-week period beginning February 15, 2019, or March 1, 2019, whichever the seasonal employer chooses.

How can I use the money such that the loan will be forgiven?

The amount of principal that may be forgiven is equal to the sum of expenses for payroll, and existing interest payments on mortgages, rent payments, leases, and utility service agreements. Payroll costs include employee salaries (up to an annual rate of pay of \$100,000), hourly wages and cash tips, paid sick or medical leave, and group health insurance premiums. If you would like to use the Paycheck Protection Program for other business-related expenses, like inventory, you can, but that portion of the loan will not be forgiven.

When is the loan forgiven?

The loan is forgiven at the end of the 8-week period after you take out the loan. Borrowers will work with lenders to verify covered expenses and the proper amount of forgiveness. What is the covered period of the loan? The covered period during which expenses can be forgiven extends from February 15, 2020 to June 30, 2020. Borrowers can choose which 8 weeks they want to count towards the covered period, which can start as early as February 15, 2020.

How much of my loan will be forgiven?

The purpose of the Paycheck Protection Program is to help you retain your employees, at their current base pay. If you keep all of your employees, the entirety of the loan will be forgiven. If you still lay off employees, the forgiveness will be reduced by the percent decrease in the number of employees. If your total payroll expenses on workers making less than \$100,000 annually decreases by more than 25 percent, loan forgiveness will be reduced by the same amount. If you have already laid off some employees, you can still be forgiven for the full amount of your payroll cost if you rehire your employees by June 30, 2020.

Am I responsible for interest on the forgiven loan amount?

No, if the full principal of the PPP loan is forgiven, the borrower is not responsible for the interest accrued in the 8-week covered period. The remainder of the loan that is not forgiven will operate according to the loan terms agreed upon by you and the lender.

What are the interest rate and terms for the loan amount that is not forgiven?

The terms of the loan not forgiven may differ on a case-by-case basis. However, the maximum terms of the loan feature a 10-year term with interest capped at 4 percent and a 100 percent loan guarantee by the SBA. You will not have to pay any fees on the loan, and collateral requirements and personal guarantees are waived. Loan payments will be deferred for at least six months and up to one year starting at the origination of the loan.

When is the application deadline for the Paycheck Protection Program?

Applicants are eligible to apply for the PPP loan until June 30th, 2020.

I took out a bridge loan through my state, am I eligible to apply for the Paycheck Protection Program?

Yes, you can take out a state bridge loan and are still be eligible for the PPP loan.

If I have applied for, or received an Economic Injury Disaster Loan (EIDL) related to COVID19 before the Paycheck Protection Program became available, will I be able to refinance into a PPP loan?

Yes. If you received an EIDL loan related to COVID-19 between January 31, 2020 and the date at which the PPP becomes available, you would be able to refinance the EIDL into the PPP for loan forgiveness purposes. However, you may not take out an EIDL and a PPP for the same purposes. Remaining portions of the EIDL, for purposes other than those laid out in loan forgiveness terms for a PPP loan, would remain a loan. If you took advantage of an emergency EIDL grant award of up to \$10,000, that amount would be subtracted from the amount forgiven under PPP.

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KIOGA Members:

Greetings! Yesterday, I sent information on the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act passed by Congress. I wanted to follow-up with some information that provides some framework for understanding its elements. While details of the Act and associated federal programs are still being finalized, I wanted to make sure KIOGA members have the latest information. Additional details will be evolving over the next few weeks. As they become available, I will be sending more guidance.

Small Business Provisions

The CARES Act creates a number of small business provisions including the opportunity to obtain loans where a key purpose is to maintain payrolls. To the degree that these loans are used for specific payroll actions, the loan is converted to a grant. Specific details on how to obtain these loans will be forthcoming, but the Senate Small Business and Entrepreneurship Committee's minority office has developed an outline that can be accessed [here](#). It is our understanding that these loans will be available through lenders that have been engaged in small business loans, but these details are not yet available.

Economic Stabilization Fund

This program is designed to distribute \$500 billion to distressed businesses. Eligible businesses are those that are adversely affected by the Coronavirus, which would include the elements of oil and natural gas production industry since they would be severely harmed by demand destruction even if the Saudi-Russian conflict was not occurring. While a portion of the program is designated for certain industries, like the airline industry, most of it is broadly available. Following are some details that have been reported by analysts of the Act at Gibson Dunn.

The terms and conditions of the Assistance, including application procedures, loan eligibility requirements, and interest rates, will be published by the Secretary within 10 days of the enactment of the Act. The Act provides that the Assistance will be provided to businesses in exchange for a warranty, equity interest or senior debt instrument, and that the principal balance of any loan issued under the Act will not be forgiven.

The Secretary is given considerable discretion in determining the terms and conditions of the Assistance, subject to some general restrictions, which include, but are not limited to the following:

- *Loans must be short-term (less than 5 years);*
- *Loans must be to U.S. domestic businesses with their primary operations and workforce located within the U.S.;*
- *Loans will be issued to businesses that incurred or expect to incur losses in the amounts that continued operation of the business is at jeopardy;*

- *Loans will be appropriately secured or include an appropriate interest rate;*
- *Loan terms will require the business to maintain employment levels (to the extent practicable, but not reduced by more than 10%) existing as of March 24, 2020 until September 30, 2020; and*
- *Loan terms will prohibit businesses from issuing dividends or buying stock of itself or of its parent during the term of the loan (and 12 months after termination).*

Federal Reserve Programs or Facilities

Under the Act, the Board of Governors of the Federal Reserve System are to establish programs or facilities for the purposes of “providing liquidity to the financial system that supports lending, eligible businesses, States, and municipalities.” The Act allocates \$454 billion plus amounts not used under other provisions of this Act to achieve this purpose. The Act does not specifically identify entities that qualify for loans at this time, but we expect the Board of Governors to provide guidelines and application procedures under the programs or facilities it establishes.

The Act does, however, provide restrictions and conditions that eligible businesses must meet to receive loans under the Board of Governors’ programs or facilities, including the following:

- *Businesses must be U.S. domestic businesses with their primary operations and workforce located within the U.S.;*
- *Businesses must agree to not repurchase their own equity securities, or the equity securities of a parent entity listed on the national stock exchange during the term of the loan and for 12 months following (unless contractually obligated prior to the date of this Act);*
- *Businesses must agree to not pay dividends or make capital distributions during the term of the loan and for 12 months following; and*
- *Businesses must comply with certain officer and employee compensation limitations as set forth in the Act.*

The Act also includes assistance to mid-sized businesses, which include those businesses with between 500 and 10,000 employees. This provision is designed to provide financing to banks and lenders that can make direct loans to eligible mid-sized businesses. The direct loans are intended to have annual interest rates below 2% and the repayment of loans is to be deferred for six months, or longer as determined by the Secretary. Eligible Businesses seeking direct loans will have to make good faith certifications to their lender. These certifications will be similar to those required from Eligible Businesses seeking Assistance (as described above), including: restoration of the businesses’ workforce (i.e., employee numbers,

compensation and benefits), bankruptcy proceedings, offshore jobs, and collective bargaining and union organizing efforts.

Tax Provisions

The Act also contains tax changes that can be beneficial.

Net Operating Losses - The bill allows for a 5 year carry back. The effective date for this change means the change applies to tax years 2018, 2019, and 2020.

- The bill also made changes so that privately held companies could more effectively utilize this tax treatment.

Interest Deductibility - the cap was raised from allowing 30% of interest payments to be deducted in the year in which they occurred to 50%. The effective date for this change means it applies to both 2019 and 2020.

NSWA Hosting Virtual Roundtable Discussion on How Small Oil Companies are Dealing with Low Prices

The National Stripper Well Association (NSWA) is hosting a virtual call on Thursday, April 2nd at 11:00 a.m. CST to talk about what companies are doing to address the challenges of low prices.

How are other small producers dealing with low oil prices?

Thursday, April 2nd at 11am CST

[**RSVP Today**](#)

Join NSWA in an interactive face-to-face virtual discussion with small producers from around the country to discuss individual company strategies in these critical times.

HOSTED BY

We'll be discussing questions such as:

Dewey Bartlett, Jr.

Keener Oil & Gas
Company

Tulsa, OK

Ken Hunter

Vaquero Energy, Inc.

Bakersfield, CA

Pat O'Neal

O'Neal Oil & Gas
Company

Fort Worth, TX

Dick Schremmer

Bear Petroleum & Gressel
Oil Field Service

Haysville, KS

J. Nelson Wood

Wood Energy, Inc.

Mt. Vernon, IL

- What kind of accommodations, if any, are your financial institutions making?
- Does your small oil business qualify for any of the new federal assistance? Low-interest SBA Loans, Paycheck Protection Program, etc?
- Are you making cuts or deferring costs? And what do you find are the best ways to do so?
- Do you have a contingency plan in place?
- How are you handling payments to your partners or working interest owners?
- What's been the most valuable measure you've put into place?
- And more.

Be sure to join us Thursday, April 2nd at 11am CST. Space is limited.

[**RSVP Today**](#)

This virtual meeting will be hosted through Zoom. You will need to have the Zoom app downloaded on your mobile device or computer.

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