Have You Exhausted All Economic Assistance Available to You?

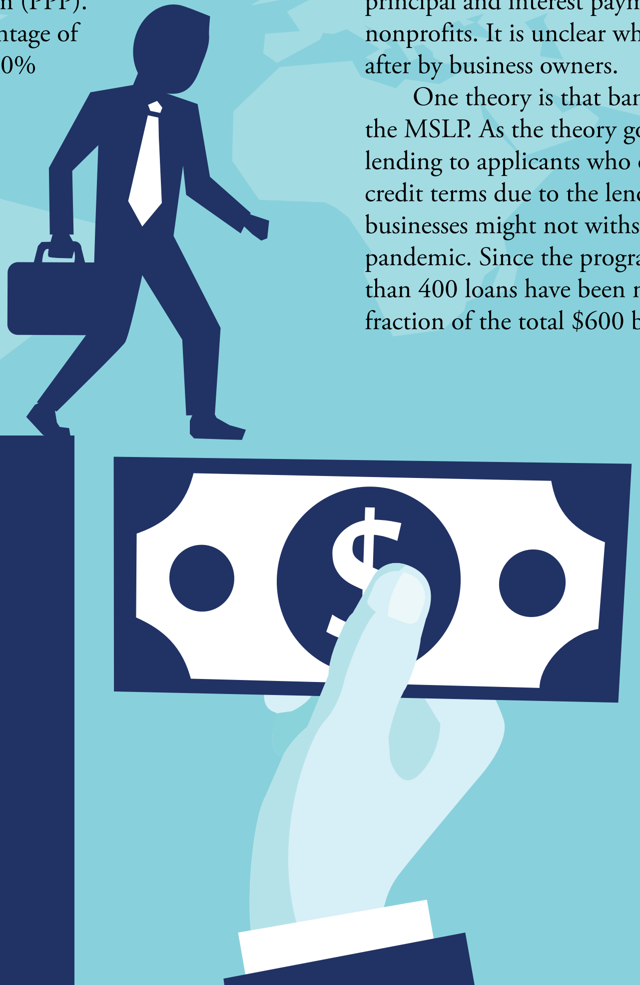

by Justin M. Klein

By the time this article is published, we will have endured the COVID-19 pandemic for the better part of nine months. Some locations may still be closed as a result, but most have re-opened and are operational. From what I hear from operators throughout the United States, numbers are stronger than expected, but certainly there is work to be done to get back to pre-COVID success levels. Perhaps during this time you took advantage of some of the financial support that was available to business owners in various forms, from loans to grants. More critically, are you aware of which programs are out there and how they can help you rebound as quickly as possible as the economy strengthens and re-opens?

Unlike the financial crisis of 2008, for those who endured it, one notable difference for businesses during the COVID-19 outbreak was the influx of financial aid from federal, state and local governments. Most, if not all, operators are aware of the Paycheck Protection Program (PPP). Indeed, many operators took advantage of this program, which provided a 100% forgivable loan to assist business owners with payroll obligations, rent, and other forms of needed relief over a set period. Moreover, many operators also had at their disposal the Economic Injury Disaster Loan (EIDL), which is also a forgivable loan program to provide relief to businesses experiencing a temporary loss of revenue due to COVID-19. Both the PPP and the EIDL programs were set forth, provided for, and administered by the federal government.

Notably, one of the more underutilized programs available to, and likely appropriate for gym owners and other retail businesses, is the Main Street Lending Program (MSLP). The MSLP is geared toward lending to small- and medium-sized for-profit businesses and nonprofit organizations that were in sound financial condition before the COVID-19 pandemic, but lack access to credit on what the government called "reasonable terms." To allow borrowers time to recover from the pandemic, the program offers several five-year loan options with deferred principal and interest payments for qualified businesses and nonprofits. It is unclear why this program was not more sought after by business owners.

One theory is that banks were not keen on supporting the MSLP. As the theory goes, lenders may have been averse to lending to applicants who otherwise could not get "reasonable" credit terms due to the lenders' perceived risk that many businesses might not withstand the harm caused by the pandemic. Since the program went operational in July, fewer than 400 loans have been made for a total of \$3.7 billion, a fraction of the total \$600 billion potentially available.



In response to the surprisingly low participation in the MSLP, the Federal Reserve sharply reduced the minimum loan size to participate in the MSLP. This move potentially unlocks access to the funds to more businesses. This is especially important to your business, considering Congress' inability to pass a second stimulus package thus far. To that end, the minimum loan size was reduced from $250,000 to $100,000. To combat the lack of participation from banks, the Federal Reserve also changed the fee structure so that lenders will get paid higher fees for facilitating loans under $250,000. Another noteworthy addition is that businesses that received under $2 million in PPP loans will now be eligible for the MSLP. The MSLP is currently set to expire Dec. 31, 2020. As such, if this is a program that may be helpful to your business, the time is now to begin your efforts to learn more and begin benefiting from support as needed.

In addition to the programs offered by the federal government, there were many financial support opportunities in the form of smaller loans or grants, as appropriate, offered by most state and local governments. These programs helped many operators throughout the United States. By way of example, the Michigan Small Business Relief Program provided up to $20 million in grants and loans to provide economic assistance to Michigan's small businesses negatively impacted by COVID-19 in order to to help support workers and their families facing economic uncertainty during the outbreak. Likewise, Pennsylvania awarded $96 million in-state grants to 4,933 Pennsylvania small businesses impacted by the business closure order implemented by Gov. Tom Wolf. The grants were intended to cover operating expenses during the shutdown and to assist with the transition to re-opening, as well as technical assistance, including training and guidance for business owners as they stabilize and relaunch their businesses.

In line with the goals of the Michigan and Pennsylvania programs, there are many other programs that were available and/or remain available that business owners should consider accessing if and as needed. Furthermore, there may be additional programs that will be introduced or implemented in the coming weeks or months; this is especially so once the election results settle in. In fact, presently pending before Congress are several industry-specific relief acts including the Health and Fitness Recovery Act of 2020 (HFRA). The HFRA would create a $30 billion fund to provide grants to affected businesses in the health and fitness industry. As proposed, grant amounts are capped at actual business loss of up to 10% of the previous year's revenue or $10 million, whichever is less. Every fitness facility operator should consider learning more about this program and what they can do to lend their support considering the positive impact it could bring to the industry.

To say these are uncharted times at this point is cliché, but it is the reality. The deluge of assistance available to operators is also a reality. All indicators seem to point to the fact that it will take time to fully rebound, so now is the time to explore all programs that may assist your business.

Justin M. Klein *is a franchise and business attorney and a partner with the nationally recognized franchise law firm of Marks & Klein LLP, which represents Planet Fitness® franchise operators throughout the United States. You can contact Klein at justin@marksklein.com.*