

A detailed, grayscale microscopic image of a coronavirus particle, showing its characteristic spherical shape and numerous spike-like projections (glycoprotein spikes) extending from its surface. The particle is centered in the upper half of the frame, with a blurred background suggesting other particles or a laboratory setting.

COVID-19: SBA PPP Loans – *Review of SBA Forgiveness Application and Additional Guidance*

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Agenda

- Key Points from Application and Instructions
- Example Calculation Using Debt Forgiveness Form
- What's Next?
- Q&A



A detailed 3D rendering of a spherical virus particle with a textured surface and several long, thin spikes extending from it. Another similar but less detailed virus is visible in the background to the left.

Key Points from Application and Instructions

Loan Forgiveness Application

- Released May 15, 2020
- <https://home.treasury.gov/system/files/136/3245-0407-SBA-Form-3508-PPP-Forgiveness-Application.pdf>
- 11 pages with instructions
- Calculations and the instructions provide clarification and additional guidance

Covered Period

- When loan was disbursed
 - Loan disbursement date is Day 1
- Spending period
 - Payroll costs
 - Non-payroll costs
- Alternative payroll covered period
- Open questions:
 - Flexibility on start date
 - Extension of 8 weeks to X weeks

Payroll Costs

- Hybrid cash/accrual basis
- Two Options Exist
 - Original Covered Period
 - Incurred but not paid for days within 8 weeks
 - Counted so long as paid on or before next regular payroll date
 - Question – is first pay date then pro-rated?
 - Alternative Payroll Covered Period
 - 8 weeks from first day of payroll period following loan disbursement date

Payroll Costs

- Owners compensation capped at lower of:
 - 8 weeks' worth of 2019 compensation OR
 - \$15,385 cap (\$100,000 annualized)
- Self-employed health insurance and retirement costs

Payroll Costs

- Incentive pay and bonuses
- Health insurance
- Retirement costs
 - Will there be a limitation on these costs?
- State and local taxes

Non-Payroll Costs

- Hybrid cash/accrual basis
 - Incurred but not paid for days within 8 weeks
 - Counted so long as paid on or before next regular billing date
- Remains limited to no more than 25% of total forgiveness amount
- Practical consideration: generally only two months of non-payroll costs will be eligible as anything additional would go beyond the 25% threshold

Non-Payroll Costs

- Utilities
 - Question: Will there be detailed definitions?
- Rent
 - Question: Will CAM and property taxes be included?
- Mortgage debt interest
 - Prepayment or principal payments are excluded
- Interest on other debt
 - Permissible use of the PPP loan proceeds
 - Not eligible for forgiveness

FTEE Calculation

- Two options are allowed for Average FTEE:
 1. For each employee, take the average number of hours per week divided by 40 and round the total to the nearest tenth. The result cannot be more than one.

OR

- 2. For each employee, assign a 1.0 to any employee working 40 hours or more per week and 0.5 to any employee working less than 40 hours per week.
- Based on Covered Period or Alternative Payroll Covered Period and related baseline comparisons

FTEE Attempted Rehire Exclusion

- Includes the following employees:
 - Declined offer to return
 - Were fired for cause
 - Voluntarily resigned
 - Voluntarily requested and received a reduction of hours
- Only applies if position is not already filled (no double dipping)
- Based on either traditional Covered Period or Alternative Payroll Covered Period

FTE Reduction Safe Harbor

- Exempt from reduction in loan forgiveness based on FTE employees if both of the following conditions are met:
 1. The Borrower reduced its FTE employee levels in the period beginning 2/15/20 and ending 4/26/20; AND
 2. The Borrower then restored its FTE employee levels by no later than June 30, 2020 to its FTE employee levels in the Borrower's pay period that included February 15, 2020. (see FTEE calculation)
- Questions:
 - How is June 30, 2020 measured?
 - Will the June 30, 2020 cure date be extended?

Wage Reduction Penalty

- Two calculations exist, one for salaried and one for hourly employees
 - Salaried employees are based on average salary
 - Hourly employees are evaluated based on average hourly wage
 - Based on either traditional Covered Period or Alternative Payroll Covered Period compared to first quarter 2020
- Comparison between the average of 8-week period vs. average of 13-week period (Q1 2020)

Wage Reduction Safe Harbor

- The SBA clarified the Borrower is exempt from the wage reduction penalty if one of the following conditions are met:
 1. Average annual salary or hourly wage during the Covered Period or Alternative Payroll Covered Period is greater than 75% of the average annual salary or hourly wage during the prior first quarter (1/1/20 to 3/31/20)

OR

 2. Meets the Safe Harbor provision that the average annual salary or hourly wage on 6/30/20 is equal to or greater than the annual salary or hourly wage on 2/15/20 if the hourly wage or salary of the employee was reduced between 2/15/2020 and 4/26/2020

Wage Reduction Safe Harbor

Using the calculation model on Page 7 of Loan Forgiveness Application:

- Step 1 – Tests if you had a reduction more than 25%; if you did not, then you simply stop at this step with the employee
- Step 2 – If you did have a reduction of more than 25%, this step determines whether the Safe Harbor has been met
- Step 3 – If you failed Step 1 (reduction was more than 75%) and Step 2 (which is the Safe Harbor) then Step 3 will calculate the math of the forgiveness reduction.

Forgiveness Amount

- Based on amount spent on payroll costs divided by 75%, not to exceed the original loan amount
- NOT based on spending 75% of loan amount on payroll costs
- Accrued interest on PPP loan not addressed
 - Question: Will accrued interest on the forgiven portion also be forgiven?
- EIDL advance will be reduced from the amount forgiven

\$2 Million Threshold

- Based on total loans of affiliated entities
- Less than \$2 million, Good Faith Certification assumed to be made
- Greater than \$2 million
 - Continue to be subject to SBA review
 - If determined to not be “necessary” and repaid, no administrative actions or penalties will be assessed on the Borrower
- Document your reasoning for “necessity”

A vertical dotted line of white dots on the left side of the blue background.

Debt Forgiveness Application

Application

- Schedules
 1. PPP Loan Forgiveness Calculation Form
 2. PPP Schedule A
 3. PPP Schedule A Worksheet
 4. PPP Borrower Demographic Information (optional)
- Items #1 and #2 must be submitted to the borrower

Example Form

- Retailer that laid off employees
- Reductions in FTEE
- Reductions in salary both hourly and salaried employees
- [Paycheck Protection Program Loan Debt Forgiveness Application Example Calculation PDF](#)



Documentation

- Page 10 of the application
- Required documents to be submitted to the lender
 - Payroll Documents
 - FTE
 - Non-Payroll
- Other documents that must be kept by business
- As well as:
 - “All records relating to the Borrower’s PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower’s certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower’s loan forgiveness application and documentation demonstrating the Borrower’s material compliance with PPP requirements.”

What Can You Be Doing Right Now?

- Update your forgiveness calculation models
- 8-week periods will be ending in and around the same time period
- Likelihood that lenders may again be overwhelmed by the process
- Keys to successful forgiveness process
 - Complete package of documents
 - Paper trail with supporting calculations
 - Documents organized and easy to follow
 - Optional documents prepared and ready in case of request
- Application
 - Complicated application with optional schedules
 - Filled out correctly and thoroughly
- Lack of documents or incorrectly prepared application could slow down the process

Questions



Additional Resources

- [SBA Issues Highly Anticipated PPP Loan Forgiveness Guidelines](#) (NEW – May 18, 2020)
- [Updated Guidance on “Good Faith” Certification That PPP Loan Is “Necessary”](#) (May 14, 2020)
- [SBA Extends The Safe Harbor Date To May 14 To Return PPP Loan](#) (May 14, 2020)
- [COVID-19: GAAP Accounting Considerations in 2020 Webinar Recording](#) (May 13, 2020)
- [FAQs – COVID-19: SBA PPP Loans – Forgiveness Updates, Myths and Additional Scrutiny](#) (May 11, 2020)
- [COVID-19: Maximizing Relief for the Restaurant Industry](#) (May 17, 2020)



**Visit our COVID-19
Resource Center page
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- **Empathy.** We are learning every day, just like you. We are worried about our employees, our customers and our families, just like you.

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