



How to Manage PPP Loan Proceeds

A COVID-19 Update from Questco – April 17th, 2020

For those of you who have recently received funds through the SBA-sponsored Paycheck Protection Program (PPP), you may be asking yourself, “Now what?” As many of our clients manage through these economically challenging times, your Questco service team wanted to share a few things to consider over the next few weeks.

First and foremost, it’s important to keep in mind that the **Paycheck Protection Program** is designed to do just that. Protect employees’ paychecks by providing employers with potentially forgivable loans to pay their employees their normal wages and, to a much lesser extent, certain essential overhead costs, at a time when the borrower has experienced a significant reduction in business income. It is not intended to fund all operating expenses during the business disruption – nor is it intended to be held on to and used at a later date when things return to normal and there’s a business reason to rehire employees.

For that reason, the borrower is not responsible for any loan repayment if the borrower [*uses all loan proceeds for qualifying expenses paid during an 8-week period following the loan origination date.*](#)

Qualifying expenses subject to loan forgiveness (“**qualifying forgiveness amount**”) include:

- Payroll costs including wages, salaries, healthcare benefits (i.e., insurance premiums), covered leave, state and local taxes, and certain payments to sole proprietors or independent contractors (consistent with the definition used to compute the amount of loan available).
- Operating expenses including rent, lease payments, utilities, internet fees, and mortgage interest obligations.
- Interest on other debt obligations incurred before February 15, 2020.

The SBA and Treasury Department have stated that no more than 25% of the loan forgiveness can be attributable to non-payroll costs. This 75/25% allocation was predicated on the Act’s overarching focus on keeping workers paid and employed during that 8-week covered period.

The 8-week covered period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The clarification on the covered period was released on April 7, 2020 in the Department of Treasury’s Q&A (Question #20), which was issued to interpret the Interim Final Rule issued by the SBA on April 2, 2020.

In addition to the specific requirements for the use of the proceeds in order to qualify for full forgiveness, the Act requires that [*employee and compensation levels*](#) be maintained:

- The eligible loan forgiveness amount will be reduced proportionately based upon the number of employees who are not retained or rehired during the 8-week covered period, based upon the formula set forth below:

The qualifying forgiveness amount (before reductions) **multiplied by** one of the two following amounts as selected by the borrower:

- 1) The average number of employees per month during the covered period (8 weeks after loan origination) divided by the average number of employees per month from February 15, 2019 – June 30, 2019

OR

- 2) The average number of employees per month during the 8-week covered period divided by the average number of employees per month from January 1, 2020 – February 29, 2020.
- The qualifying forgiveness amount will also be reduced by the dollar amount of any salary/wage reduction occurring during the 8-week covered period that is greater than 25% of an employee's salary/wages during the most recent full quarter for which the employee was employed prior to February 15, 2020.
 - Employee or salary reductions that occur between February 15, 2020 and April 26, 2020 (30 days after enactment of the CARES Act) will not be considered in reducing the qualifying forgiveness amount if the reduction in employees or salary is restored by **June 30, 2020**.

To the extent that the loan does not qualify for forgiveness, the borrower still can keep the proceeds and repay the loan at very advantageous terms. In that case, the proceeds can be used for whatever purpose and in whatever time period the borrower decides to use them.

At this time, the SBC has not provided specific guidance with respect to the loan forgiveness request process, including what forms and financial information will be required. We also understand that each individual lending institution may institute unique reporting requirements with respect to loan forgiveness determination. However, we would like to share some recommended administrative procedures to consider when managing your PPP loan proceeds:

- Consider opening a new bank account that can be used to receive the funds and process disbursements. The account should have disbursement / check writing capabilities.
- Establish accounts payable / payroll payment procedures to ensure that only appropriate expenses are paid with the PPP funds in the separate account.
- Create a disbursement forecast that tracks all of the projected loan uses during the "loan forgiveness period" (8 weeks post receipt of the funds), as only up to 25% of the loan proceeds can be used for non-payroll expenses to enable the PPP loan to be forgiven. Forecast the amount of payroll costs during the disbursement forgiveness period to determine the amount of the PPP loans that can be used for non-payroll items.
- The timing for the start of the 8-week covered period can materially impact the amount of loan that could be forgiven for some borrowers. For example, if the vast majority of your employees are currently laid off and will remain laid off for the full 8-weeks after the funds are received, the borrower will have to consider the impact of the lack of payroll expense on the amount of the loan that can be forgiven. That said, you may not want to bring people back, but instead take advantage of the additional liquidity and the resulting low interest rates offered.
- Establish recordkeeping procedures to allow you to expedite the loan forgiveness process (and provide lenders with real-time updates, if required).

- Please notify your Questco payroll specialist with the date you received your PPP loan proceeds in order to allow Questco to provide critical payroll cost tracking reports.

Lastly, as with many of the various relief packages made available during the COVID-19 pandemic, the loan forgiveness terms are subject to further clarification, so it is possible that some of the provisions surrounding loan forgiveness will change.

If you have not yet been approved for a loan under the PPP, and still hope to be considered should additional funds be made available through the federal government (*which we have every expectation they will*), here are a few options to consider:

- If you're concerned that you will not qualify for full forgiveness of the loan due to a recent reduction in your employee count or salary levels, you may want to reduce the amount of the PPP loan requested to the dollar amount you expect to need to cover wages actually being paid in that 8-week covered period plus an additional 25% for qualified operating expenses during that time period. That will increase the likelihood that all of payroll costs incurred over the next 8 weeks are covered by the free loan.
- Another option is to apply for the recently announced Main Street Lending program which provides loans to cover any type of operating expense. It does not have a forgiveness clause, but the loans do have extremely favorable terms, including deferral of principal and interest payments for one year.

Your Questco team is here to support you navigate through these turbulent times. Your financial well-being is important to us. Please reach out if we can assist you.