Navigating the Paycheck Protection Program
Loan Application
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What is the Paycheck Protection Program (PPP)?

- Loan to help small businesses
  - Small Business Administration (SBA) program
  - Cover short-term operating expenses
  - Help businesses to keep their employees
- Forgivable up to 100% if loan is used for payroll and permitted business expenses
- Deadline for Loan Application is June 30, but loans are ‘first come- first served’
  - Funding for second $310 Billion started on April 27, 2020
What Can the Loan Be Used For?

• Payroll costs (capped at $100,000 on an annual basis for each employee)
• Health care benefits (including paid sick or medical leave, and insurance premiums)
• Mortgage interest
• Rent
• Utilities
• Interest on other debt incurred before Feb. 15, 2020

*75% of the loan is to be used for payroll costs*
Who can Apply for a PPP Loan?

• If you are a:
  • Small business – SBA defines as < $750K income for agriculture;
  • Sole proprietor, independent contractor or self-employed;
  • 501(c)(3) non-profit;
  • 501(c)(19) veteran organization; or
  • Tribal business
• Less than 500 employees
• In operation on February 15, 2020
Loan Terms

• Loan term: 2 years
• Interest rate: 1% annually
  • Payment deferred 6 months, but interest accrues in that time
• Loans 100% guaranteed by SBA
  • No collateral or personal guarantee needed
• Borrower fees are waived
• Forgivable up to 100% if loan used for payroll and essentials such as rent, mortgage interest and utilities
How Much Can I Borrow?

• The lesser of:
  • 2.5X average monthly payroll costs during the 1-year period before the date on which the loan is made, or
  • $10 million

• For new businesses, the measurement period is Jan. 1 to Feb. 29, 2020

• Economic Injury Disaster Loans (EIDLS) can be refinanced into a PPP loan
What are Payroll Costs?

- Wages, commissions, salary, or similar compensation to an employee;
- Cash tip or equivalent;
- Vacation, parental, family, medical or sick leave;
- Severance pay;
- Group health care benefits, including insurance premiums;
- Any retirement benefits; and
- State or local tax assessed on the compensation of employees.
What are NOT Payroll Costs?

• Compensation in excess of an annual salary of $100,000
  • employee, sole proprietor, independent contractor or self-employed person

• Federal payroll taxes paid by employer

• Compensation for employees living outside the U.S.

• Qualified sick and family leave wages covered under Families First Coronavirus Response Act ("FFCRA")
Step 1: Find a Bank

• Must be an SBA-approved lender

• Start with your bank
  • Some banks are only accepting applications from current clients

• Credit unions and Farm Credit institutions may be lenders

• SBA has a lender search tool: Find a PPP Lender Here

• Be wary of anyone offering to apply for you! Scammers are active.
Step 2: Complete the PPP Application

- Link to SBA model loan application
  - Calculate average monthly payroll
  - Calculate number of employees
  - Certify in Good Faith

- Many banks have modified SBA loan application – ask for their version
Calculate the Average Monthly Payroll

• Select the relevant time period
  • Non-seasonal businesses use 12-month period prior to loan date
    • Calendar year 2019
    • March 1, 2019-February 29, 2020
    • Bank may have preference
  • New businesses can use 2020 data
    • January 1-February 29, 2020
  • Seasonal businesses use 12-week period beginning February 15, 2019 or March 1, 2019 (decided by the borrower) and ending June 30, 2019

• Include all payroll costs for employees during time period
  • 1099 workers are not included
## Sample Payroll Calculation Chart

### Example

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Total Compensation</th>
<th>Eligible Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name 1</td>
<td>40,000.00</td>
<td>40,000.00</td>
<td>40,000.00</td>
<td>40,000.00</td>
<td>160,000.00</td>
<td>100,000.00</td>
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<tr>
<td>Name 2</td>
<td>10,000.00</td>
<td>10,000.00</td>
<td>10,000.00</td>
<td>10,000.00</td>
<td>40,000.00</td>
<td>40,000.00</td>
</tr>
<tr>
<td>Name 3</td>
<td>500.00</td>
<td>4,000.00</td>
<td>4,000.00</td>
<td>750.00</td>
<td>9,250.00</td>
<td>9,250.00</td>
</tr>
<tr>
<td>Name 4</td>
<td>500.00</td>
<td>2,500.00</td>
<td>2,500.00</td>
<td>750.00</td>
<td>6,250.00</td>
<td>6,250.00</td>
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<tr>
<td>Name 5</td>
<td>-</td>
<td>4,000.00</td>
<td>4,000.00</td>
<td>-</td>
<td>8,000.00</td>
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<tr>
<td>Name 6</td>
<td>5,000.00</td>
<td>5,000.00</td>
<td>5,000.00</td>
<td>5,000.00</td>
<td>20,000.00</td>
<td>20,000.00</td>
</tr>
<tr>
<td></td>
<td><strong>56,000.00</strong></td>
<td><strong>65,500.00</strong></td>
<td><strong>65,500.00</strong></td>
<td><strong>56,500.00</strong></td>
<td><strong>243,500.00</strong></td>
<td><strong>183,500.00</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Retirement contributions</th>
<th>Health insurance premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total payroll costs April 1, 2019 to March 31, 2020** 183,500.00

**Average monthly payroll costs April 1, 2019 to March 31, 2020** 15,291.67
Calculate the Number of Employees

- Weigh full time and part time equally?
- We determined number of employees per pay period based on FTEs
- Bank may have a preference
Other Requirements

Lenders will ask for a good faith certification from the borrower that:

• The loan request is necessary to support ongoing operations due to the uncertainty of current economic conditions;

• The borrower will use the loan proceeds to retain workers and maintain payroll and/or make mortgage interest, lease, and utility payments;

• The borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here; and

• From February 15, 2020 to December 31, 2020, the borrower has not received a loan that is duplicative of the purpose and amounts applied here.
Required Supporting Documentation

- Evidence to support average monthly payroll and number of employees
  - Payroll processor reports
  - Payroll tax filings (W3 and 941 form)
  - Schedule C Business Profit and Loss for self-employed or sole proprietor

- A breakdown of the amount of your loan request along with the calculation used to determine that amount

- Corporations and LLCs filings with the Mass Secretary of the Commonwealth is correct, up to date and in good standing
Example of a Loan Request

<table>
<thead>
<tr>
<th>Loan Calculation</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12-month payroll costs</td>
<td>$183,500</td>
<td>12</td>
</tr>
<tr>
<td>Avg Monthly P/R</td>
<td>$15,292</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>$38,229</td>
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</tbody>
</table>
Final Steps

Step 3: Bank enters loan request into SBA system
• After a PPP loan application is completed by the borrower and supporting documentation is provided, the bank then enters the loan into the SBA’s E-Tran system for approval
• Critical stage, as this is the step where the allocation by the SBA occurs.
  • SBA will ‘reserve’ funding for you

Step 4: Bank funds the loan
• Once approved, the loan then moves to the bank’s document and funding stage.
How to Obtain Loan Forgiveness

• A business has eight weeks to spend PPP loan on payroll cost, mortgage interest, rent and utilities

• Little flexibility on the 8-week period
  • Period begins on the date the borrower receives loan funds
  • Bank is required to make the disbursement within 10 days of loan approval

• No more than 25% of the forgivable amount of a PPP loan can be used for non-payroll costs
Caution: Amount Forgiven Can Be Reduced

- If you cut back on work force
  - Average FTE headcount during 8-week loan period is less than average FTE during a prior comparison period
  - Comparison period is either:
    - February 15, 2019 - June 30, 2019; or
    - January 1, 2020 – February 29, 2020
    - Choose period most favorable to you

*Note: reduction is a percentage, not all or nothing*
Caution: Amount Forgiven Can Be Reduced

• If you reduce salaries
  • Wages paid to any employee in 8-week loan period is decreased by more than 25%
  • For any covered employee whose wages or salary during the covered period decreased by more than 25%
    • Multiply the first quarter 2020 wages or salary by .75
    • Subtract the product from the covered period wages or salary
    • Forgiveness is reduced by that amount
  • If you have labor turnover, how can you compare?
    • May be helpful to show position was paid same salary
• Amount forgiven will not be reduced if employees are rehired or wages increased by June 30, 2020
How to Maximize Forgiveness

• Keep accurate track of expenses
  • Understand what expenses are covered by PPP loan
  • Document expenses
    • Open a separate bank account for PPP forgivable expenses
• Use at least 75% of PPP loan for payroll costs
• Rehire workers and restore pay cuts
• Keep an eye on the calendar and make sure to make payments, e.g., rent and utilities, within 8-week loan period
  • Use it or lose it