



LEGAL FOOD HUB

A project of Conservation Law Foundation

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



Paycheck Protection Program Borrower Application Form

OMB Control No.: 3245-0407
Expiration Date: 09/30/2020

Check One: <input type="checkbox"/> Sole proprietor <input type="checkbox"/> Partnership <input type="checkbox"/> C-Corp <input type="checkbox"/> S-Corp <input type="checkbox"/> LLC <input type="checkbox"/> Independent contractor <input type="checkbox"/> Eligible self-employed individual <input type="checkbox"/> 501(c)(3) nonprofit <input type="checkbox"/> 501(c)(19) veterans organization <input type="checkbox"/> Tribal business (sec. 31(b)(2)(C) of Small Business Act) <input type="checkbox"/> Other		DBA or Tradename if Applicable			
Business Legal Name					
Business Address		Business TIN (EIN, SSN)	Business Phone		
			() -		
		Primary Contact	Email Address		
Average Monthly Payroll:	\$	x 2.5 + EIDL, Net of Advance (if Applicable) Equals Loan Request:	\$	Number of Employees:	
Purpose of the loan (select more than one): <input type="checkbox"/> Payroll <input type="checkbox"/> Lease / Mortgage Interest <input type="checkbox"/> Utilities <input type="checkbox"/> Other (explain): _____					



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						
Full Name	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Total Compensation	Eligible Compensation
Name 1	40,000.00	40,000.00	40,000.00	40,000.00	160,000.00	100,000.00
Name 2	10,000.00	10,000.00	10,000.00	10,000.00	40,000.00	40,000.00
Name 3	500.00	4,000.00	4,000.00	750.00	9,250.00	9,250.00
Name 4	500.00	2,500.00	2,500.00	750.00	6,250.00	6,250.00
Name 5	-	4,000.00	4,000.00	-	8,000.00	8,000.00
Name 6	5,000.00	5,000.00	5,000.00	5,000.00	20,000.00	20,000.00
	56,000.00	65,500.00	65,500.00	56,500.00	243,500.00	183,500.00
Retirement contributions						-
Health insurance premiums						-
Total payroll costs April 1, 2019 to March 31, 2020						183,500.00
						12
Average monthly payroll costs April 1, 2019 to March 31, 2020						15,291.67



Calculate the Number of Employees



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Business Legal Name					
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Business TIN (EIN, SSN)		Business Phone			
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Primary Contact		Email Address			
Average Monthly Payroll:	\$	x 2.5 + EIDL, Net of Advance (if Applicable) Equals Loan Request:	\$	Number of Employees:	
Purpose of the loan (select more than one): <input type="checkbox"/> Payroll <input type="checkbox"/> Lease / Mortgage Interest <input type="checkbox"/> Utilities <input type="checkbox"/> Other (explain): _____					

- 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

Loan Calculation			
12-month payroll costs		\$	183,500
			12
Avg Monthly P/R		\$	15,292
			2.5
		\$	38,229



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

FTEs:			
May 1 2020-Jun 30, 2020	6	A	
Jan 1 2020-Feb 29 2020	2	B	
Feb 15 2019-June 30 2019	7	C	
Forgiveness (%) (A divided by B or C)			100%

*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



Questions?

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