

May 4, 2020

### **Paycheck Protection Program – Loan Amounts & Forgiveness**

The Paycheck Protection Program (PPP) is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The PPP has been under recent scrutiny because many large businesses received loans in the first round of funding (\$349 billion), while many small businesses did not. In the second round, which includes \$310 billion in funding, there are tighter restrictions as to which businesses can apply, and any business that does apply must lack the liquid sources to sustain operations.

The program offers loans to small businesses to cover up to eight weeks of payroll and other business expenses. The Small Business Administration (SBA) will forgive these loans if the company meets certain requirements as outlined below. Businesses can use PPP funds for the following:

- Paying full-time and part-time employee salaries, wages, commissions, or tips
- Mortgage interest
- Rent
- Utilities

For mortgages, rent, and utilities to qualify, the business needed to enter a contract or begin services prior to February 15, 2020. In addition, 75% of the loan must go to payroll costs with the remaining 25% spread across the other categories. The federal government allocated \$349 billion for the program and added \$310 billion on April 24 after funds depleted on April 16.

### **Loan Amounts, Repayments, and Forgiveness**

SBA determines loan amounts by reviewing the average monthly payroll from the previous twelve months or from 2019. Qualifying applicants will receive this sum plus 25% with a cap of \$10 million per applicant. The loans have a two-year repayment period with an interest rate of 1%. However, if applicants are able to rehire their entire workforce without reducing wages and only use the funds for the approved purposes above, SBA will forgive the loans in their entirety.

SBA is still offering partial loan forgiveness to businesses that are not able to rehire/retain all of their staff members or have to decrease wages. To request loan forgiveness, businesses will need to submit the request to their lender along with supporting documents that outline employees and their wages as well as their other eligible expenses. To simplify this process, many lenders are recommending that businesses hold PPP funds in a separate account and only make withdrawals to pay for covered expenses.

### Eligible costs

Loans will be eligible for forgiveness in an amount equal to the sum of the following costs incurred and payments made during the 8-week period following loan funding. At least 75% of the total forgiveness amount must represent payroll costs. The remaining 25% can be allocated to rent and interest on mortgage obligations (beginning before 2/15/2020), or payment for utilities (electricity, gas, water, [transportation, telephone, or internet access) for services beginning before 2/15/2020.

### Employee requirements

Your forgiveness amount will be reduced if, as compared to prior periods, you've reduced the number of your full-time employees, or if compensation across employees earning \$100,000 or less was reduced by more than 25%. If your business reduced your workforce or their salaries, the SBA may allow you until June 30, 2020, to rehire and increase salaries to avoid some/all of this reduction. However, 75% of the forgiveness amount must be attributable to payroll costs over the eight-week loan period.

### Documentation

Required documentation will likely include:

- Verification of the number of employees on your payroll and pay rates, including IRS payroll tax filings and state income, payroll and unemployment insurance filings
- Cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage, lease obligations and utilities payments

### Revised Qualification Criteria

As of April 26, applicants must certify a PPP loan is needed due to economic hardships, which *means the business lacks liquid sources to sustain operations*. While SBA halted applications after the initial funds depleted, they resumed processing applications as of April 27 to allocate the additional \$310 billion.

[Contact the experts at Patriot Growth Insurance Services](#) for more guidance on protecting your business during the COVID-19 pandemic.

### Helpful SBA Links:

Paycheck Protection Program Overview

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>

Paycheck Protection Program Loan Information

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program#section-header-0>

Economic Injury Disaster Loan Emergency Advance

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/economic-injury-disaster-loan-emergency-advance>

SBA Express Bridge Loans

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/sba-express-bridge-loans>

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