



TexasBankersAssociation

Strong Banks. Stronger Communities.

CARES Act Small Business Assistance

PAYCHECK PROTECTION PROGRAM (PPP) LOANS

BASIC GROUND RULES:

100% guarantee by the SBA.

WHO IS ELIGIBLE TO PARTICIPATE?



SMALL
BUSINESS



SOLE
PROPRIETOR



INDEPENDENT
CONTRACTOR



SELF
EMPLOYED



NONPROFIT
ORGANIZATION



VETERANS
ORGANIZATION



TRIBAL
CONCERN

Business concerns with more than one location are eligible, and affiliation rules are waived for franchises with fewer than 500 employees.

- Employees include full time, part time, and “other.”

MAXIMUM AMOUNT OF PPP LOAN

THE
SUM
OF:

2.5X
AVERAGE TOTAL
MONTHLY
PAYROLL

Incurred over one year period
(12 week period for seasonal
employees)



Outstanding SBA EIDL loan
(Economic Injury Disaster
Loan)

MAXIMUM LOAN AMOUNT MAY NOT EXCEED \$10,000,000

WHAT IS A COVERED LOAN (PPP LOAN)?

Payroll costs equal:

- Salary, wage, commission, or similar compensation;
- Payment of cash tip or equivalent;
- Payment for vacation, parental, family, medical, or sick leave;
- Allowance for dismissal or separation;
- Payment for healthcare benefits;
- Payment for retirement benefits; and
- Payment of payroll taxes.

Loans made between



are covered.

ELIGIBILITY:

In evaluating eligibility of a borrower, a lender shall consider whether the borrower:

- Was in operation on February 15, 2020; and
- Had employees for whom the borrower paid salaries and payroll taxes or paid independent contractors.

NONRECOURSE:

The SBA Administrator shall have no recourse against any eligible recipient of a covered loan.

WHAT DOES A SMALL BUSINESS NEED TO PROVIDE ON ITS PPP LOAN APPLICATION?

- ✓ The uncertainty of current economic conditions makes the loan necessary to support its ongoing operations;
- ✓ Acknowledge that funds will be used to retain workers and maintain payroll, or make mortgage, lease, and utility payments;
- ✓ The eligible recipient does not have an application pending for another PPP loan for the same purpose and duplicative of amounts applied for or received under the current loan application; AND
- ✓ During the period beginning on February 15, 2020 and ending on December 31, 2020 that the eligible recipient has not received PPP loans for the same purpose and duplicative of amounts applied for or received under a covered loan.



FEE WAIVER:

- During the covered loan period with respect to a covered loan, the SBA waives fees.

WAIVER OF PERSONAL GUARANTEE REQUIREMENT:

- Borrowers shall not be required to provide a personal guarantee for a covered loan; and
- No collateral shall be required for the covered loan.



WHAT CAN I PAY FOR WITH MY PPP LOAN PROCEEDS?

- Payroll costs;
- Group healthcare benefits during the covered period, including paid sick, medical or family leave, and insurance premiums;
- Employee salaries, commissions, or similar compensations;
- Payments of mortgage interest (excluding principal);
- Rent;
- Utilities; and
- Interest on any other debt obligations that were incurred during the covered period.

WHO CAN MAKE PAYROLL PROTECTION LOANS?

- A lender approved to make loans under this section shall be deemed to have been delegated authority by the SBA to make and approve covered loans.
- The authority to make PPP loans shall be extended to additional lenders determined by the SBA and the Secretary of the Treasury to have necessary qualifications to process, close, disburse and service loans made with the guarantee of the Administration.

(This means that lenders do not have to currently be certified SBA lenders to participate.)

LOAN DEFERMENT:

An impacted borrower:

- Must be in **operation on February 15, 2020** and have an application for a covered loan that is approved on or after the date of CARES Act enactment.
- **Is presumed to have been adversely impacted by COVID-19.**

During the covered period, the SBA shall:

- Consider each eligible recipient that applies for a **covered loan to be an impacted borrower.**
- Require PPP lenders to provide complete payment deferment relief for borrowers with PPP loans for a period of not less than 6 months, including principal, interest, and fees, and not more than 1 year.

GUIDANCE: SBA shall provide guidance to PPP lenders on the deferment process within 30 days of enactment. (April 26, 2020)

WHAT DOES A PPP LENDER NEED TO KNOW?

- If a PPP loan is sold on the **secondary market** and an investor declines to approve a deferral request, the SBA will purchase the loan so the borrower can receive the deferral period.
- From a regulatory capital standpoint, PPP loan carries 0% risk weight;
- FDIC-insured institution that modifies a PPP loan in a TDR on or after March 13, 2020 shall not be required to comply with FASB TDR standards until such time and under such circumstances as the appropriate federal banking agency deems appropriate.
- **IN GENERAL:** SBA shall reimburse a lender authorized to make a PPP loan at a rate, based on the balance of the financing outstanding at the time of the disbursement of the PPP loan, of:



- A reimbursement shall not be made later than **5 days after the disbursement** of the PPP loan.
- A recipient of an **EIDL loan** made between January 31, 2020 and June 30, 2020 is still eligible to apply for a PPP loan during the covered period.
- **THERE SHALL BE NO PREPAYMENT PENALTY FOR ANY PAYMENT MADE ON A COVERED LOAN.**



WHEN DOES THE BORROWER HAVE TO START REPAYING THE LOAN?

Lenders must provide complete payment deferment relief for not less than 6 months and not more than 1 year.

LOAN FORGIVENESS

FORGIVENESS:

An PPP borrower shall be eligible for forgiveness of indebtedness on a covered loan in an amount equal to the sum of the following costs incurred and made for the eight-week period following the date the PPP loan is made:



**PAYROLL
COSTS**



**MORTGAGE
INTEREST PAYMENTS**



**RENT
PAYMENTS**



**UTILITY
PAYMENTS**

TREATMENT OF AMOUNTS FORGIVEN:

- Amounts forgiven under this section shall be considered cancelled indebtedness by a lender authorized under Section 7(a) of the Small Business Act.

- Not later than 90 days after the date on which the amount of forgiveness is determined, the Administrator shall remit to a PPP lender an amount equal to the amount of forgiveness, plus any interest accrued through the date of payment.



- A PPP lender may report to the Administrator an expected forgiveness amount on a covered loan (or a pool of covered loans) up to 100% of the principal.



- The Administrator shall purchase the expected forgiveness amounts as if the amount were the principal amount of a loan guaranteed under Sec. 7(a) of the Small Business Act.

- Not later than 15 days after the date the Administrator receives the expected forgiveness amount report, the Administrator shall purchase the expected forgiveness amount.



LIMITS ON AMOUNT OF FORGIVENESS:

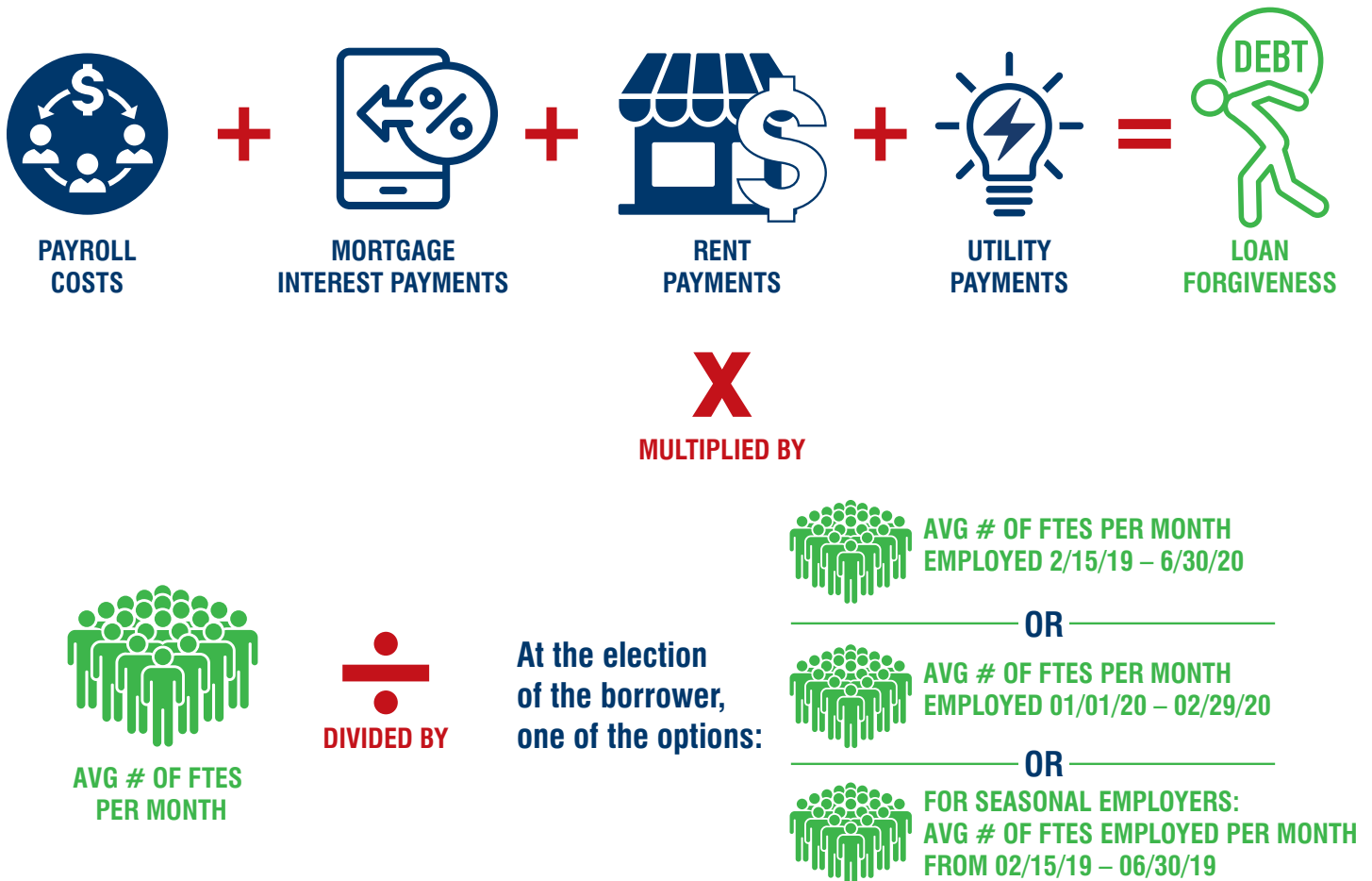
The amount forgiven cannot exceed the principal amount of the PPP loan.

DEFINITIONS:

- ➡ Covered loan means a PPP loan.
- ➡ Covered mortgage obligation means any indebtedness incurred in the ordinary course of business that is a liability of the borrower; is a mortgage on real property; and was incurred before February 15, 2020.
- ➡ Covered period means the 8-week period beginning on the date of the origination of the covered loan. 
- ➡ Covered rent obligation means rent obligated under a lease in force before February 15, 2020.
- ➡ Covered utility payment means payment for electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.
- ➡ Expected forgiveness amount means the amount of principal that a lender reasonably expects a borrower to expend during the covered period on the sum of any payroll costs; covered mortgage interest payments; covered rent payments; and covered utility payments.

REDUCTION BASED ON REDUCTION IN NUMBER OF EMPLOYEES:

The amount of loan forgiveness shall be reduced (but not increased) as follows:



The average number of FTEs shall be determined by calculating the average number of FTE employees for each pay period falling within a month.

REDUCTIONS RELATING TO SALARY AND WAGES*:

The amount of loan forgiveness shall be reduced by the amount of any reduction in total salary or wages of any employees making less than \$100,000 per year during the covered period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period.

An eligible recipient with tipped employees may receive forgiveness for additional wages paid to those employees.

** Clarification on the implementation of this section is forthcoming from Treasury.*

EXEMPTION FOR REHIRES:

In the following circumstances, the amount of loan forgiveness shall be determined without regard to a reduction in the number of FTEs or a reduction in the salary in 1 or more employees during the period beginning on February 15, 2020 and ending 30 days after March 27 (the date of enactment):



- During the period beginning February 15, 2020 and ending 30 days after March 27, there is a reduction, as compared to February 15, 2020 in the number of FTEs; and not later than June 30, 2020, the eligible employer has eliminated the reduction in the number of FTEs;
- During the period beginning on February 15, 2020 and ending 30 days after enactment, there is a reduction, as compared to February 15, 2020 in the salary or wages of 1 or more employees; and not later than June 30, 2020 the eligible employer has eliminated the reduction in the salary or wages of such employees; or
- Both FTEs and salary and wages are reduced.

APPLICATION:

An eligible PPP borrower seeking loan forgiveness shall submit to the PPP lender that is servicing the loan an application that includes:



1. Documentation verifying the number of FTEs on payroll and payrates for the covered period. This must include state and federal payroll tax filings;
2. Documentation including cancelled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, payments on covered lease obligations; and covered utility payments;
3. A certification from a representative of the borrower that: the documentation is true and correct and the amount for which forgiveness is requested was used to retain employees, make mortgage interest payments, make rent payments, or make covered utility payments and;
4. Any other documentation the Administrator deems necessary.

PROHIBITION ON FORGIVENESS WITHOUT DOCUMENTATION:

No borrower shall receive loan forgiveness without submitting the proper documentation to the lender.



DECISION:

The lender shall issue a decision on a loan forgiveness application within 60 days.



HOLD HARMLESS:

There is a hold harmless clause for the lender if the borrower has submitted the necessary documentation for loan forgiveness and lender approves the loan forgiveness.

TAXABILITY:

Any loan amount forgiven shall be excluded from gross income.

REGULATIONS:

Not later than April 26, the Administrator shall issue guidance and regulations implementing this section.