



# Paycheck Protection Program (PPP)

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**Funder Organization:** Bank funded, guaranteed by the Small Business Administration (SBA)

**Program URL:** <https://www.sba.gov/funding-programs/loans/paycheck-protection-program-ppp>

**Type of Fund:** SBA 100% Guaranteed Loan

**Target Audience or Geography:** United States (all areas)

## Estimated Time of Arrival for Public Rollout:

- Starting April 3, 2020, small businesses can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.
- On Wednesday, April 3rd, 2020 SBA released interim guidance for the program: <https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule>

## Brief Program Description

The Paycheck Protection Program (“PPP”) authorizes up to \$349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. All loan terms will be the same for everyone.

Bank Lenders (see Application Submittal Process shown below) originate the PPP loan directly to the borrower and this loan is 100% guaranteed by SBA.

Borrower does not pay any fees.

## Determining Loan Amount:

- Step 1: Aggregate payroll costs from the last twelve months for employees whose principal place of residence is the United States.
- Step 2: Subtract any compensation paid to an employee in excess of an annual salary of \$100,000 and/or any amounts paid to an independent contractor or sole proprietor in excess of \$100,000 per year.
- Step 3: Calculate average monthly payroll costs (divide the amount from Step 2 by 12).
- Step 4: Multiply the average monthly payroll costs from Step 3 by 2.5.
- Step 5: Add the outstanding amount of an Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020, less the amount of any “advance” under an EIDL COVID-19 loan (because the “advance” does not have to be repaid).

**New businesses:** The period shall be determined using average payroll costs from January 1, 2020 and ending February 29, 2020, and multiply the total by 2.5.

## Eligibility Requirements

Business must have been in operation as of February 15, 2020 and have paid taxes on employees (or by the independent contractors).

- A small business with fewer than 500 employees.
- A small business that otherwise meets the SBA's size standard.
- A 501(c)(3) not-for-profit charitable organization with fewer than 500 employees.
- An individual who operates as a sole proprietor.
- An individual who operates as an independent contractor.
- An individual who is self-employed who regularly carries on any trade or business.
- A Tribal business concern that meets the SBA size standard.
- A 501(c) (19) Veterans Organization that meets the SBA size standard.
- For a business in the hospitality, accommodation or food services sector (click [HERE](#) for NAICS code 72 to confirm), the 500-employee rule is applied on a per physical location basis.
- A business operating as a franchise in the SBA's Franchise Directory (click [HERE](#) to check);
- For a business receiving financial assistance from an approved Small Business Investment Company licensed by the SBA, the normal affiliation rules do not apply.

OR if the business has no more than 500 employees per physical location **AND** if the business has an NAICS code beginning with '72' at the time of the eligible period.

Businesses in certain industries can have more than 500 employees if they meet applicable SBA employee-based size standards for those industries (click [HERE](#) for additional detail).

The term "employee" includes individuals on a full-time, part-time, or other basis.

## Ineligibility Restrictions

- Businesses engaged in illegal activity under federal, state or local law. (Cannabis warning).
- A household employer (you have a nanny, staff, etc.)
- Any previous defaults on a federal loan in last 7 years.
- Some businesses may not be eligible businesses as determined by SBA.

## Use of Funds

- Payroll costs.
- Costs related to the continuation of group health care benefits for illness, medical or family leave, and insurance premiums.
- Employee salaries, commission, or similar compensation.
- Payments of interest on short-term and long-term debt that incurred before February 15, 2020.
- Rent including rent under a lease agreement in force before February 15, 2020.
- Utilities including telephone and internet access, for which service began before February 15, 2020.
- Refinancing an SBA EIDL loan made between January 31, 2020 and April 3, 2020.

### Determining Payroll:

The sum of payments of any compensation with respect to employees that is a:

- 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 required for the provisions of group health care benefits, including insurance premiums.
- payment of any retirement benefit.
- payment of state or local tax assessed on the compensation of the employee.

### Excluded Payroll Costs:

- Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020.
- Payroll taxes, railroad retirement taxes, and income taxes.
- Any compensation of an employee whose principal place of residence is outside of the United States.
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116– 5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act.
- Do not count independent contractors as employees for purposes of PPP loan calculations. Independent contractors have the ability to apply for a PPP loan on their own.

**Interest Rates:** 1.0%

**Loan Term:** 2 years.

**Collateral Requirements:** None (unsecured)

**Loan Program Payment Deferment (if any):** 6 months

**Forgiveness Terms (if any):** A borrower shall be eligible for forgiveness of loan in the amount equal to the sum of the following costs incurred and payments made during the covered period (known as 8 weeks from origination of the covered loan on the sum of any: payroll cost, payments of interest on any covered mortgage obligation, payment of interest on a loan, rent, and utilities.

At least 75% of the forgiven amount must have been used for payroll.

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease by more than 25%.

A business has until June 30, 2020 to restore full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

Forgiveness will be reduced by, but not limited to: the quotient of dividing the average number of full-time employees per month employed by the borrower during the covered period, by: the average number of full-time equivalent employees per month employed by the borrower during the period of February 15, 2019 through June 30, 2019; **OR** by the average number of full-time equivalent employees per month employed by the eligible recipient during the period beginning on January 1, 2020 and ending February 29, 2020.

To request loan forgiveness a business can submit a request to the lender that is servicing the loan. The request will include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. It must certify that the documents are true and that it used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days.

For purposes of loan forgiveness, the borrower will have to document the proceeds used for payroll costs in order to determine the amount of forgiveness.

**Personal Guarantee:** No personal guarantee requirement. \*\*\*However, if the proceeds are used for fraudulent purposes, the U.S. government will pursue criminal charges against you.\*\*\*

**Loan Program Interaction:** If you received an EIDL loan related to COVID-19 between January 31, 2020 and April 3, 2020, you can apply for a PPP loan. If your EIDL loan was not used for payroll costs, it does not affect your eligibility for a PPP loan. If your EIDL loan was used for payroll costs, your PPP loan must be used to refinance your EIDL loan. Proceeds from any advance up to \$10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

**Application Submittal Process:** Contact your bank, credit union, or lender where you have an existing banking relationship that participates in the SBA 7a loan program.

**Required Forms and Documentation:** Businesses will likely be required to submit the following to the lender: SBA Form 2483 (Paycheck Protection Program Application) and payroll documentation as is necessary required by lenders to establish eligibility.

**Borrowers Required to Provide “Good Faith Certifications” to Lenders Attesting:**

- The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations.
- The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments.
- Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here.
- From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here (Note: There is an opportunity to fold emergency loans made between Jan. 31, 2020 and the date this loan program becomes available into a new loan).

### SBA Program Information Page:

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

### SBA PPP Interim Final Rule:

<https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule>

### Additional URLs:

US Treasury PPP Borrower Info Fact Sheet

<https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf>

### Program Forms:

PPP Loan Application Form

<https://home.treasury.gov/system/files/136/Borrower%20Paycheck%20Protection%20Program%20Application%20%28v1%29.pdf>

## Additional Information

Businesses will be required to submit to the lender documentation as is necessary to establish eligibility such as payroll processor records, payroll tax filings, or Form 1099-MISC along with your most recent IRS Form 941- Employer's Quarterly Federal Income Tax Return.

For borrowers that do not have any such documentation, the borrower must provide other supporting documentation, such as bank records, sufficient to demonstrate the qualifying payroll amount.

Sole Proprietorships will be required to submit SBA Form 2483 along with income and expenses.

In addition to the bank and SBA application materials, we recommend that the business owner prepares the following supporting information:

1. Company prepared year-end 2019 profit & loss statement along with a 12/31/19 balance sheet.
2. Current year-to-date 2020 financials (P&L and Balance Sheet) for the business.
3. A spreadsheet that details the prior 12 months of payroll costs, as defined in the Brief Program Description shown above.
4. A spreadsheet that indicates which employees/owners, if any, earn in excess of \$100,000 along with the amount of the wage/salary/commission.

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