

Loan Forgiveness Details

As this is being written, there are no absolute guidelines for loan forgiveness for your PPP loan. We expect that guidance will be released at any moment, but we wanted to set out some possibilities so that you and your company are using the proceeds of your loan as permitted. We want each of you to get the maximum forgiveness possible for your loan at the end of the eight-week period.

As you are aware, up to 100% of your PPP loan is forgivable (to the extent that you maintain specified employment and wage levels). The loan can be fully forgiven if the PPP proceeds are spent within the 8 weeks of your note date, the funds are used for payroll costs (at least 75%) and other approved loan uses (as described below).

Remember, this program is called the Paycheck Protection Program and its intent is to get money to businesses to help them pay normal wages to their employees, irrespective of whether or not you are open for business.

The following information has been gathered from sources that we deem to be reliable, but the information contained below can, and will likely change, before final SBA guidance is released on these topics.

How are payroll costs calculated?

- Employee gross pay including salary, wages, commissions, and tips (capped at \$100,000 on an annualized basis for each employee)
 - All state and local taxes paid on an employee's gross pay (most likely state unemployment insurance)
 - Employer paid healthcare benefits, including insurance premiums
 - Employer contributed retirement benefits
- Less:** Employer paid federal payroll taxes (FICA and Medicare)

What are the other permitted uses?

- Interest on debt obligations incurred before February 15, 2020
- Rent, under a lease agreement in force before February 15, 2020
- Utilities, for which service began before February 15, 2020 (can include gas, electric, water, and telephone expenses)

How will the amount of loan forgiveness be determined?

The loan may be fully forgiven if all of the following three conditions are met:

- The loan proceeds are spent on qualifying costs within 8 weeks of the note date
- At least 75% of the loan proceeds are used for payroll costs and no more than 25% are used for the other permitted uses as described above

- Staffing and pay levels are maintained during the eight-week period immediately following disbursement of the loan (see next question)

How will it be determined if I have maintained my company's staffing levels?

To determine whether adequate staffing levels have been maintained, the average number of full-time equivalent (FTE) employees per month during the eight-week period from the date of the loan will be compared to one of two time periods. Borrowers may either use:

- February 15 through June 30, 2019, or
- January 1 through February 28, 2020

If you had 10 FTEs during the first period and 8 FTEs during the second, you would choose the second period and use eight employees as your comparison factor.

If the number of FTEs during the eight-week period is lower than the time period chosen, the amount of loan forgiveness may be reduced (likely proportionally). Reductions in staffing that occurred between February 15 and April 26, 2020 will not be considered in reducing loan forgiveness if they are reversed by June 30, 2020.

For the purposes of calculating loan forgiveness, how will the determination of whether my business has maintained pay levels be made?

Repayment of part of your PPP loan may be required if an employee's earnings are reduced by 25% or more during the eight-week period from your note date compared to the most recent full quarter of employment prior to the loan date. However, reductions in compensation occurring between February 15 and April 26, 2020 will not be considered in reducing your loan forgiveness if they are reversed by June 30, 2020. For the purposes of loan forgiveness, employees earning wages or salary at an annualized rate of more than \$100,000 in any pay period of 2019 aren't considered.

What happens if less than 75% of the PPP loan proceeds aren't used on payroll costs?

Some of your loan (and interest may not be forgiven and may need to be repaid).

How will you apply for forgiveness? How long will it take?

You will apply for forgiveness with your bank. Documentation will need to be provided to support your use of proceeds, and you will need to certify that you have complied with the program's rules. You may apply beginning on the eighth week of your loan. After the bank's review, your documentation will be submitted to the SBA and the amount of forgiveness will be determined. This may take 60 days after you submit your paperwork and certification.

What should I be doing now?

You should be keeping very detailed records of how you spent your loan proceeds. Each amount should have supporting paperwork to show how the funds were used. We are hoping that there will be a tool or spreadsheet released to help you with this process at some point.

What forms of documentation should I be keeping?

- 941s, payroll schedule, third party validation (reports from your payroll service)
- Healthcare and retirement plan documents
- Rent, mortgage and utility support
- EIDL check and evidence

Are there any issues with an EIDL grant?

Many borrowers applied for an EIDL grant before, and many will apply after the PPP loan closing. The bank will need to check you and electronically with the SBA to validate your EIDL status. If you have dispersed your grant prior to the granting of PPP forgiveness, we will be required to deduct the EIDL grant amount from the loan forgiveness calculations. (This was just reported to us recently, and we are still working through this issue).