



The PPP Journey: Paycheck Protection Program, From Application Through Forgiveness, and Beyond!

Welcome!
We will start momentarily.



A Few Housekeeping Rules:

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The PPP Journey: Paycheck Protection Program From Application Through Forgiveness and Beyond



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Coronavirus Aid, Relief and Economic Security (CARES) Act

- CARES Act is intended to address economic impacts of, and otherwise responds to, the COVID-19 (Coronavirus) outbreak and includes provisions related to Small Business Administration loan programs.
- Passed on March 27, 2020 and includes over \$2 Trillion in benefits



Paycheck Protection Program

- The Paycheck Protection Program initially authorized (Phase 1) up to \$349 billion in loans toward job retention and certain other expenses, but an additional \$321 billion was added in Phase 2 for a total of **\$659 billion** in the program.
- **Eligible recipients** may qualify for a loan up to \$10 million based on 2.5 times the average monthly payroll costs.
- Loan payments will be deferred for twelve (12) months.
- **Loan forgiveness** is available for borrowers who spend their loan proceeds on eligible payroll and certain other expenses with a time frame of up to 24 weeks.



PPP Loan Metrics through June 16, 2020

- Total PPP funded by Congress: \$659 billion
- Number of approved loans: 4,607,098
- Total amount of PPP Loans approved: \$513 billion (approx.)
- PPP funds remaining: \$145 billion (approx.)

- (Source: SBA.gov)



Top States for PPP Loans (by total loan amount)*

		Approved Loans \$	No. Loans	Avg. Loan Size
1.	California	\$66,500,354,602	505,798	\$131,476
2.	Texas	\$40,479,177,091	346,839	\$116,682
3.	New York	\$37,798,829,252	281,058	\$134,487
4.	Florida	\$30,341,950,424	325,845	\$93,117
5.	Illinois	\$22,156,267,843	176,819	\$125,304
22.	Louisiana	\$7,218,312,417	65,158	\$110,781

*Not clear if based on domicile of Borrower or Lender

(Source SBA.gov)



Paycheck Protection Program Deadline

The deadline to submit an application
for a PPP loan is **JUNE 30, 2020!**



Paycheck Protection Program:

FIRST STEP: FIND A LENDER

- Most community and statewide banks and financial institutions have participated in the PPP, but some have recently stopped taking new applications for PPP loans.
- There are a number of other sources, including national banks, non-bank lenders and a few online lenders (i.e., Kabbage, Intuit/Quickbooks)
- **CHECK WITH YOUR EXISTING BANKING RELATIONSHIP, ASAP!**



What Businesses Are Eligible?

Businesses with **500 or fewer employees**, including for-profit entities, eligible nonprofit organizations (i.e., **501(c)(3) non-profit organizations** and **government-owned hospitals** that receive less than 50% of funding from governmental sources exclusive of Medicaid), Veterans organizations, Tribal businesses described in the Small Business Act, agricultural enterprises, as well as individuals who are self-employed or are independent contractors, are eligible if they also meet certain size standards.



How Much Can Be Borrowed?

- Eligible recipients may qualify for a loan based on their **average monthly payroll costs times 2.5**.
- The “2.5” multiplier creates a borrowing base that will fund, essentially, approximately 10.5 weeks of a borrower’s payroll, assuming average payroll is the same as 2019 or trailing 12-months and an equivalent number of employees.
- Maximum loan amount is \$10 million.



How to Determine Average Monthly Payroll Costs?

- Simple method: Determine your **eligible payroll costs** for all of 2019, and divide by **12**.
- The other method is to use eligible payroll costs over the **trailing 12-month** period and divide by 12, but because of the documentation required by lenders, using 2019 data is typically the easiest.
- If you had either a significant changes in payroll costs or number of employees since January 2020, you may want to consider the alternative method.



Eligible Payroll Costs

- Payroll costs consist of **gross compensation** to employees (whose principal place of residence is the United States) in the form of **salary, wages, commissions, or similar compensation**; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); **payment for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal**; payment for the provision of **employee benefits** consisting of **group health care coverage**, including insurance premiums, and **retirement**; payment of **state and local taxes** assessed on compensation of employees; and for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.



Eligible Payroll Costs

- Also includes bonuses and “hazard pay” according to SBA’s FAQs
- Q: Are salary, wages, or commission payments to furloughed employees; **bonuses**; or **hazard pay** during the covered period eligible for loan forgiveness?
- Yes. The CARES Act defines the term “payroll costs” broadly to include compensation in the form of salary, wages, commissions, or similar compensation. If a borrower pays furloughed employees their salary, wages, or commissions during the covered period, those payments are eligible for forgiveness as long as they do not exceed an annual salary of \$100,000, as prorated for the covered period. The Administrator, in consultation with the Secretary, has determined that this interpretation is consistent with the text of the statute and advances the paycheck protection purposes of the statute by enabling borrowers to continue paying their employees even if those employees are not able to perform their day-to-day duties, whether due to lack of economic demand or public health considerations. This intent is reflected throughout the statute, including in section 1106(d)(4) of the Act, which provides that additional wages paid to tipped employees are eligible for forgiveness. The Administrator, in consultation with the Secretary, has also determined that, if an employee’s total compensation does not exceed \$100,000 on an annualized basis, the employee’s hazard pay and **bonuses** are eligible for loan forgiveness because they constitute a supplement to salary or wages, and are thus a similar form of compensation.



Eligible Payroll Costs

- Payroll costs are considered paid on the day that paychecks are distributed or the Borrower originates an ACH credit transaction.
- For each individual employee, the total amount of cash compensation eligible for forgiveness may not exceed an annual salary of \$100,000, as prorated for the covered period.



Ineligible Payroll Costs

- What is expressly excluded from the definition of payroll costs?
 - Any compensation of an employee whose principal place of residence is outside of the United States;
 - The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
 - Employer's share of FICA (Federal Insurance Contributions Act) and other federal taxes; and
 - Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.



Example PPP Loan Calculation:

2019 annual eligible payroll costs: **\$1 million**

Avg. monthly payroll costs: **\$83,333** (\$1M/12)

Max. PPP Loan Amt.: **\$208,332** (\$83,333 x 2.5)



Other General PPP Loan Terms:

- PPP loans accrue interest at the rate of 1% per annum
- The maturity date for the unforgiven portion of a PPP loan issued after June 5, 2020 is 5-years (Loans issued prior have 2-year maturities)
- PPP loans do not require collateral to secure the loans or personal guaranties.
- PPP loan application requires several “certifications” by the borrower, including:
 - The applicant was in operation on February 15, 2020 and had employees for who it paid salaries and payroll taxes
 - Current economic uncertainty makes the loan necessary to support the ongoing operations of the applicant
 - The applicant has not and will not receive another PPP loan during the period February 15, 2020 to December 31, 2020.



Eligible “Uses” of PPP Loan Proceeds

- Eligible payroll costs (salaries, vacation, medical, sick leave, retirement)
- Mortgage interest on debt incurred prior to Feb. 15, 2020, secured by real and personal property
- Eligible rent on leases in effect prior to Feb. 15, 2020
- Utilities (electricity, water, internet, telecommunications, transportation)
- Interest on other debt incurred prior to Feb. 15, 2020 (Note: not eligible for forgiveness)



Ineligible “Uses” of PPP Loan Proceeds

- Anything that is *not* an eligible use



PPP Loan Forgiveness: Turning a “Loan” into a “Grant”

- Section 1106(b) of the CARES Act provides:
 - An eligible recipient shall be eligible for forgiveness of indebtedness on a covered loan in an amount equal to the sum of the following costs incurred and payments made during the **covered period**:
 - **Payroll costs.**
 - Any **payment of interest on any covered mortgage obligation** (which shall not include any prepayment of or payment of principal on a covered mortgage obligation).
 - Any payment on any covered **rent** obligation.
 - Any covered **utility payment.**”



Which Expenses Are Eligible for PPP Loan Forgiveness?

- **Eligible payroll costs** “paid or incurred” during the applicable covered period.
 - “Payroll costs” are the same items that went into calculating the maximum loan amount.
- At least 60% of the total PPP loan amount must be used for **eligible payroll cost** to avoid limiting the amount of non-payroll expenses that may be forgiven
- **Maximum cash compensation** for each individual employee includable in forgiveness calculation (does not include non-cash benefits):
 - \$15,385 if using an 8-week Covered Period
 - \$46,154 if using a 24-week Covered Period
 - REMEMBER: you were only able to borrow approximately 10.5 weeks of payroll costs for each individual employee (i.e., \$20,833). Using 24-week period does not provide more funding, but gives more time to spend up to the full amount of what was borrowed for each individual employee



Which Non-Payroll Expenses Are Eligible for Loan Forgiveness?

- **Eligible non-payroll expenses** “paid or incurred” during the applicable covered period:
 - **Mortgage interest** on debt incurred prior to Feb. 15, 2020, secured by real and personal property
 - Eligible **rent** on leases in effect prior to Feb. 15, 2020
 - **Utilities** (electricity, water, internet, telecommunications, transportation)
- Note that interest on non-mortgage debt is not included in the eligible forgiveness amount
- No more than 40% of total PPP loan expenditures can be attributable to non-payroll expenses



Example of the 60% - 40% Limitation Being Satisfied With No Reduction in Loan Forgiveness:

- Assume a PPP loan in the amount of \$100,000
- Payroll expenses: \$60,000
- Non-payroll expenses: \$40,000
- Total PPP loan expenses: \$100,000
- Maximum loan forgiveness: \$100,000
- **Balance to be repaid: \$0**



Example of the 60% - 40% Limitation Being Satisfied With No Reduction in Loan Forgiveness; But With a Remaining Balance:

- Assume a PPP loan in the amount of \$100,000
- Payroll expenses: \$60,000
- Non-payroll expenses: \$30,000
- Total PPP loan expenses: \$90,000
- Maximum loan forgiveness: \$90,000
- **Balance to be repaid: \$10,000**



Example of the 60% - 40% Limitation Not Being Met and Resulting Remaining Balance:

- Assume a PPP loan in the amount of \$100,000
- Payroll expenses: \$50,000
- Non-payroll expenses: \$40,000
- Total PPP loan expenses: \$90,000
- Maximum loan forgiveness: \$83,333

*Easiest way to calculate:

Total Payroll Costs expended *divided by* .60 = max. forgiveness

- **Balance to be repaid: \$16,667**



“Covered Period”

- The time period in which a borrower must spend PPP loan proceeds in order to receive loan forgiveness
- “Covered Period” for purposes of PPP loan forgiveness means the 24- week period (168 days) beginning on the date of the origination of a covered loan. Originally was an 8-week period (56 days).
- “Date of origination” means the first date PPP loan proceeds are disbursed to the borrower.
- Borrowers may elect to use the original 8-week period as their “covered period”; this has forgiveness implications.



Alternative Payroll Covered Period

“For administrative convenience, ***Borrowers with a biweekly (or more frequent) payroll schedule*** may elect to calculate eligible payroll costs using the 8-week (56-day) period or 24 week (168 day) period that begins on the first day of the their first pay period following their PPP Loan Disbursement Date (the “Alternative Payroll Covered Period”)



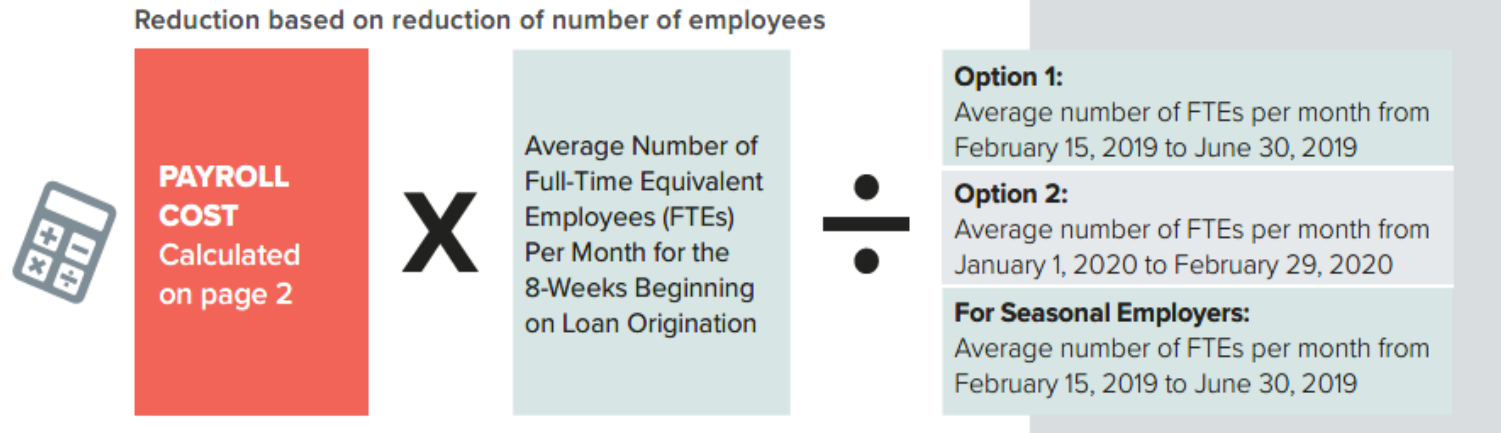
Adjustments to Loan Forgiveness Amount for Reductions in FTE Count or Reduction in Salaries

- If a PPP borrower reduces its number of employees (on an FTE-basis), there will be a proportionate reduction in the amount of loan forgiveness.
- If a PPP borrower reduces salaries and wages for any employee during the covered period by more than 25% compared to the most-recent quarter, the amount of loan forgiveness will be reduced by the dollar amount of such reductions.



Reduction in Loan Forgiveness

- If a borrower reduces the number of its full-time employees during the covered period, the loan forgiveness amount will be reduced on a percentage basis as follows:





Calculating FTEs in the PPP Loan Forgiveness Application

- Provides that the determination of an employee as an FTE is done **on an employee-by-employee basis**, and the maximum FTE for each employee is “1”. Also, the instructions veer from the “monthly” average concept of the statute and instruct Borrowers to calculate average FTE’s on a “**weekly**” basis.
- Based on an average 40-hour work week, rounded to the nearest tenth. Examples:
 - employee paid for 40 hrs./week = 1 FTE.
 - employee paid for 50 hrs./week = 1 FTE.
 - employee paid for 30 hrs./week = .75 FTE
 - Employee paid for 35 hrs./week = .9 FTE (rounded from .875)



- The application provides for a simplified method of determining the number of FTEs for both the reference periods and the Covered Period (or Alternative Payroll Covered Period): Borrowers may elect to use a simple method of counting FTEs by assigning a “1” for each employee who **works** 40 hours or more per **week** and a “0.5” for employees who work fewer hours
- New employees hired during the Covered Period (or Alternative Payroll Covered Period) may be counted in the calculation
- Provides several **safe harbors** that eliminate reduction, including rehiring the employees by December 31, 2020.
- Calculate FTE counts in the same manner for all periods that need to be tested.



Example of Safe Harbor: FTE Reduction Exception – From the PPP Flexibility Act

“(7) EXEMPTION BASED ON EMPLOYEE AVAILABILITY.—During the period beginning on February 15, 2020, and ending on December 31, 2020, the amount of loan forgiveness under this section shall be determined without regard to a proportional reduction in the number of full-time equivalent employees if an eligible recipient, in good faith—

“(A) is able to document—

“(i) an inability to rehire individuals who were employees of the eligible recipient on February 15, 2020; and

“(ii) an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020; or

“(B) is able to document an inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to compliance with requirements established or guidance issued by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration during the period beginning on March 1, 2020, and ending December 31, 2020, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.



Simple FTE Test and Safe Harbor

- Determine number of FTE for the payroll period that includes Feb. 15, 2020.
- Determine number of FTE as of the earlier of (i) December 31, 2020 or (ii) the date of PPP forgiveness application
- If FTEs in (ii) are equal to or greater than FTEs in (i), there will be no forgiveness reduction based on FTE reduction



Reduction in Loan Forgiveness due to Salary/Wage Reductions

- Forgiveness amount will also be reduced if a borrower reduces the salary or wages of any employee by more than 25 percent, as compared to Jan. 1, 2020 – March 31, 2020, for any employee that made less than \$100,000 annualized in 2019. The amount of any reduction in wages that is greater than 25 percent will be deducted from the amount of the loan otherwise eligible for forgiveness.



Reduction in Loan Forgiveness Due to Reduction in Salaries

Reduction based on reduction in salaries



**PAYROLL
COST**
Calculated
on page 2

—

For any employee who did not earn during any pay period in 2019 wages at an annualized rate more than \$100,000, the amount of any reduction in wages that is greater than 25% compared to their most recent full quarter.



Safe Harbor (Reduction of Salary/Wages)

- Despite reductions in salary/hourly wage levels, if you restored salary/hourly wage levels prior to December 31, 2020, you may be eligible for elimination of the Salary/Hourly Wage Reduction amount.
- To determine if you qualify for this safe harbor, for each employee:
 - A. Enter the annual salary or hourly wage as of February 15, 2020.
 - B. Enter the average annual salary or hourly wage between February 15, 2020 and April 26, 2020.
 - C. If B is less than A, enter the average annual salary or hourly wage as of the earlier of December 31, 2020 or date the forgiveness application is filed.
- If C is equal to or greater than A, the Salary/Hourly Wage Reduction Safe Harbor has been met.



Other Forgiveness Requirements

- Loan forgiveness must be applied for by the borrower; it is not automatic
- Application is made directly with the lender that made the loan by using SBA forms (Form 3508 or Form 3508EZ)
- Forgiveness applications must be filed within 10 months from the end of the borrower's selected covered period.
- The forgiveness amount includes principal and accrued interest.



Documentation that Must Be Submitted With the Forgiveness Application

- **Payroll:** Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:
 - a. Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
 - b. Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
 - i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
 - ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
 - c. Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the Borrower included in the forgiveness amount (PPP Schedule A, lines (6) and (7)).



Documentation that Must Be Submitted With the Forgiveness Application (cont.)

- **FTE:** Documentation showing (at the election of the Borrower):
 - a. The average number of FTE employees on payroll per week employed by the Borrower between February 15, 2019 and June 30, 2019;
 - b. The average number of FTE employees on payroll per week employed by the Borrower between January 1, 2020 and February 29, 2020; or in the case of a seasonal employer, the average number of FTE employees on payroll per week employed by the Borrower between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive 12-week period between May 1, 2019 and September 15, 2019.
 - c. The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.
- **Nonpayroll:** Documentation verifying existence of the obligations/services prior to February 15, 2020 and eligible payments from the Covered Period.
 - a. Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from February 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
 - b. Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from February 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
 - c. Business utility payments: Copy of invoices from February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.



Documentation that Must Be Maintained but is Not Required to be Submitted

- Schedule A Worksheet or its equivalent and the following:
 - a. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 1, including the “Salary/Hourly Wage Reduction” calculation, if necessary.
 - b. Documentation supporting the listing of each individual employee in PPP Schedule A Worksheet Table 2; specifically, that each listed employee received during any single pay period in 2019 compensation at an annualized rate of more than \$100,000.
 - c. Documentation regarding any employee job offers and refusals, refusals to accept restoration of reductions in hours, firings for cause, voluntary resignations, written requests by any employee for reductions in work schedule, and any inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020.
 - d. Documentation supporting the certification, if applicable, that the Borrower was unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19. This documentation must include copies of the applicable requirements for each borrower location and relevant borrower financial records.
 - e. Documentation supporting the PPP Schedule A Worksheet “FTE Reduction Safe Harbor 2.”
- All records relating to the Borrower’s PPP loan, including documentation submitted with its PPP loan application, documentation supporting the Borrower’s certifications as to the necessity of the loan request and its eligibility for a PPP loan, documentation necessary to support the Borrower’s loan forgiveness application, and documentation demonstrating the Borrower’s material compliance with PPP requirements. The Borrower must retain all such documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.



Links to SBA Loan Application, Forgiveness Applications and Instructions

- PPP Loan application: <https://www.sba.gov/sites/default/files/2020-06/PPP%20Borrower%20Application%20Form%20%28Revised%20June%202012%202020%29-Fillable-508.pdf>
- PPP Loan Forgiveness EZ Application: <https://www.sba.gov/sites/default/files/2020-06/PPP%20Forgiveness%20Application%203508EZ%20%28Revised%2006.16.2020%29%20Fillable.pdf>
- PPP Loan Forgiveness EZ Application Instructions: <https://www.sba.gov/sites/default/files/2020-06/PPP%20Loan%20Forgiveness%20Application%20Form%20EZ%20Instructions%20%28Revised%2006.16.2020%29.pdf>
- PPP Loan Forgiveness (long-form) Application: https://www.sba.gov/sites/default/files/2020-06/PPP%20Loan%20Forgiveness%20Application%20%28Revised%2006.16.2020%29-fillable_0.pdf
- PPP Loan Forgiveness Application Instructions: <https://www.sba.gov/sites/default/files/2020-06/PPP%20Loan%20Forgiveness%20Application%20Instructions%20%28Revised%2006.16.2020%29.pdf>
- **CHECK WITH YOUR LENDER BEFORE COMPLETING ANY OF THESE APPLICATIONS. MOST LENDERS HAVE THEIR OWN SUPPLEMENTAL FORMS AND SCHEDULES IN ADDITION TO THE FOREGOING**



Questions?



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