The Paycheck Protection Program: A New Relief Option for Small Businesses

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Today's Presenter...

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Today’s Agenda

01 Key Features
02 Borrower Eligibility
03 Application Process
04 Loan Forgiveness
05 Additional Considerations
Key Features

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020:

- Delivers a $2.2 trillion economic stimulus
- Intends to keep American workers employed and paid throughout the COVID-19 public health emergency
- Contains a multitude of provisions aimed at providing financial assistance to businesses, including the Paycheck Protection Program

The Paycheck Protection Program (PPP)

- Allocates $350 billion in federal funds to provide emergency federally-backed loans to qualifying small businesses
- Loans meant to help recipients remain in business and keep workers employed during the economic downturn
- Includes unique loan provisions and features unlike traditional Small Business Act Loans
Key Features

Use of Loan Funds

- Payroll costs, including U.S.-based employee and independent contractor compensation up to $100,000 in annual compensation, paid leave benefits (except those provided under Families First Coronavirus Response Act), retirement benefits, and state payroll taxes
- Group health care benefits and insurance premiums
- Rent and utility payments
- Interest payments on a mortgage
- Interest payments on other debt obligations incurred before February 15, 2020
- Any other uses already permitted of Small Business Act Loans
Key Features

Loan Provisions

- The maximum amount available to an eligible business is equal to 2.5 times the average monthly payroll costs during the one-year period before the date of the loan (subject to a $10 million limit)
- The maximum interest rate that can be charged is capped at 4%, and no pre-payment penalties apply
- The maximum term of the loan is 10 years from the date of application
- Typical Small Business Act Loan fees are waived
- Payments on principal and interest are deferred for up to six months to one year
- The full amount of the loan is eligible for loan forgiveness
Borrower Eligibility

General Eligibility Criteria

- A small business with fewer than 500 employees* or a small business that otherwise meets the Small Business Act’s size standard;
- A 501(c)(3) with fewer than 500 employees;
- An individual who operates as a sole proprietor or an independent contractor;
- A self-employed individual who regularly carries on any trade or business;
- A Tribal business concern that meets the Small Business Act size standard; or
- A 501(c)(19) Veterans Organization that meets the Small Business Act size standard

* The 500-employee threshold includes all employees (full-time, part-time, seasonal, etc.) both in the U.S. and abroad, and employees of affiliates; a snap-shot count done at the time of application
Borrower Eligibility

Special Eligibility Criteria

• For businesses in the accommodation and food services sector (NAICS 72), the 500-employee count is applied per physical location
  • NAICS 72
  • Where a business operates under multiple industry codes, the Small Business Act will apply the code of the business’ primary industry

• For businesses operating as a franchise or that receive financial assistance from an approved Small Business Investment Company, the affiliation rules will not apply
Application Process

Lenders

• Banks that already issue Small Business Act Loans
• Private lenders authorized by the U.S. Treasury Department
• A list of authorized lenders can be found at www.sba.gov, or businesses can contact their preferred lender to confirm the institution’s participation in the program
• Lenders can begin processing applications **beginning April 3, 2020 through June 30, 2020**
Application Process

The Application

- Sample application is available at: https://www.sba.gov/sites/default/files/2020-03/Borrower%20Paycheck%20Protection%20Program%20Application.pdf
- Good Faith Certification
  - The uncertainty of current economic conditions makes the loan request necessary to support ongoing operation
  - The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payment
  - Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here
  - From February 15, 2020 to December 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here
- No collateral or personal guarantee is required
- Lenders will also consider whether the borrower was in operation prior to February 15, 2020 and had employees and/or independent contractors for whom compensation was paid
Loan Forgiveness

Amount Eligible for Forgiveness

• Businesses that receive a PPP loan are eligible for loan forgiveness up to the full amount of the principal of the loan.
• An amount equal to the business’ costs during the first eight weeks of the life of the loan for the following expenses:
  • Payroll costs (including group health insurance premiums)
  • Payments of interest on a mortgage that existed prior to February 15, 2020
  • Rent payments for obligations that existed prior to February 15, 2020
  • Utility payments
• The loan forgiveness criteria encourages businesses to quickly put to use the dollars received from a PPP loan.
Loan Forgiveness

Reductions to Forgiven Amount

- The amount of loan forgiveness is reduced if there is a reduction in the number of employees or of wages paid to employees between pre-crisis levels and the first eight weeks of the life of the loan.
  - Proportional reduction in forgiveness amount for reductions in number of full-time equivalent employees.
  - Straight reduction in forgiveness amount for wage reductions of over 25% for workers making less than $100,000 annually.

Reduction based on reduction of number of employees.

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PAYROLL COST Calculated on page 2

Average Number of Full-Time Equivalent Employees (FTEs) Per Month for the 8-Weeks Beginning on Loan Origination

Option 1:
Average number of FTEs per month from February 15, 2019 to June 30, 2019

Option 2:
Average number of FTEs per month from January 1, 2020 to February 29, 2020

For Seasonal Employers:
Average number of FTEs per month from February 15, 2019 to June 30, 2019
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Reduction based on reduction in salaries

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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.

Chart Source: U.S. Chamber of Commerce
Loan Forgiveness

Relief from Forgiveness Reductions

The following reductions will not count against a business for purposes of determining the loan forgiveness amount if the business eliminates the reduction by June 30, 2020:

- Reductions in the number of full-time equivalent employees made between February 15, 2020 and April 26, 2020
- Reductions in wages made between February 15, 2020 and April 26, 2020

Note: To receive loan forgiveness, a business must apply to the same lender servicing the loan and must provide documentation to verify the number of full-time equivalent employees and wages, as well as amounts spent on eligible expenses
Additional Considerations

- **Interaction between PPP and other CARES Act tax credits**: A business that obtains a PPP loan cannot use the payroll tax credits available under the Families First Coronavirus Response Act for employee retention, nor the deferral of social security payroll taxes under the CARES Act.

- **Interaction between PPP and Economic Disaster Injury Loans**: Businesses that obtained an Economic Disaster Injury Loan cannot obtain a PPP loan for the same purpose.

- **Prepare to apply**: Lenders will begin accepting applications on April 3, 2020, and due to the high interest in PPP and the cap on federal funding, the availability of PPP loans will likely not last through June.

- **Further agency guidance is forthcoming**: The Small Business Administration will issue additional guidance on the PPP.

- **Resources**
  - [www.sba.gov](http://www.sba.gov)
  - [www.uschamber.com/co/](http://www.uschamber.com/co/)
Thank you for attending! Stay safe!