

# COVID-19

What Every Small Employer Should Know

**Part - 3: SBA Paycheck Protection Program Summary**

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# SBA Paycheck Protection Program Summary

- CARES Act provides \$350B for small businesses to keep workers employed during pandemic and economic downturn through the SBA Paycheck Protection Program (“PPP”)
- Loans are 100% federally guaranteed and offered through existing Section 7(a) / SBA / SBIC lenders
- Applications will open on ~4/3, are due by 6/30 and will take ~60 days to process
- SBA is targeting a loan submission to funding turnaround time of ~1 week

## Who is Eligible

### Standard Path:

- Have less than 500 employees including all “Affiliates” (effectively all SCP companies)
- Most SCP companies don’t qualify

### SBIC Path

- Have an SBIC lender as lender or equity investor (e.g. Resolute)

AND

- Have fewer than 500 employees (FT + PT + other)

OR

- Per counsel, meet SBA’s NAICS specific standards (revenue, net income, net worth, others)
- May qualify with 500+ employees

## Key Terms:

- Interest Rate: Not to exceed 4%
- Prepayment: no penalty
- Collateral: no collateral / personal guarantees required
- No recourse: SBA will have no recourse unless company uses funds for unauthorized purpose
- Deferral: mandatory deferral of principal, interest and fees for at least 6 months and up to 12 months at lender discretion
- Fees: No lender or borrower guaranty fees
- Duration: 10 years maximum
- Issuers: to be issued by existing SBA Section 7(A) lenders

## Allowable Uses

- Payroll support, including paid sick, medical, or family leave, and costs related to the continuation of group health care and retirement benefits during those periods of leave;
- Employee salaries (up to \$100k annual salary);
- Mortgage payments;
- Rent (including rent under a lease agreement);
- Utilities; and
- Any other interest on debt obligations that were originated before the covered period (excludes payment of principal)
- Refinance an existing Economic Injury Disaster Loan (page 3)

# SBA PPP: How Much Can You Borrow?

- Loans can be up to 2.5x the borrower's average monthly payroll costs, not to exceed \$10M
- In general, (i) included payroll costs include any and all gross compensation costs and (ii) excluded payroll costs exclude compensation above \$100,000, payroll taxes, non US employees, and sick leave wages eligible for tax credits

## Borrowing Limits

- Maximum Loan = 2.5x average total monthly payroll costs incurred during the year prior to loan date
- For businesses not operational in 2019 utilize 2.5x average total monthly payroll costs for January and February 2020
- Average Monthly Payroll Costs Calculation:

$$\begin{aligned} & (\text{Sum of Included Payroll Costs}) \\ & - (\text{Sum of Excluded Payroll Costs}) \\ & = \text{Payroll Costs} \\ & / 12 \\ & = \text{Average Monthly Payroll Costs} \end{aligned}$$

## Included Payroll Costs

- 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

# SBA PPP: How Much Can Be Forgiven?

- Up to 100% of loan can be forgiven based on how proceeds are used in first 8 weeks. However, forgiveness amount can be reduced by any staff or salary reductions over 25%.
- Forgiveness reductions can be waived if any staff / salary reductions are reversed by 6/30.
- Upon a lender's final report of an expected loan forgiveness amount for a loan or pool of loans, the SBA will purchase such amount of the loan from the lender.

## What Can Be Forgiven

- Total forgiveness amount is measured 8 weeks from date of loan origination and includes:
  - Payroll Costs (net exclusions)
  - Costs that were established before 2/15/2020, including mortgage interest, lease rent, and utilities
  - Additional wages paid to tipped employees
- Forgiveness capped at loan principal

## Forgiveness Reduction

- Forgiveness reduction based on FTE changes:
  - Payroll Costs (net exclusions)
  - X (Avg. number of FTEs per month for 8-weeks starting on loan origination date)
  - / (Avg. number of FTEs per month from 2/15/2019 to 6/30/2019 or from 1/1/2020 to 2/29/2020 if seasonal)
- Forgiveness reduction based on salary changes:
  - Payroll Costs (net exclusions)
  - (-) (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)
  - (-) EIDL Emergency Grant amount (up to \$10,000)
- Exceptions:
  - Reductions in employment or wages that occur during the period beginning on February 15, 2020, and ending 30 days after enactment of the CARES Act, (as compared to February 15, 2020) shall not reduce the amount of loan forgiveness IF by June 30, 2020 the borrower eliminates the reduction in employees or reduction in wages

# SBA PPP Loan Application

- The SBA PPP Loan is LIVE and eligible companies and management teams can begin populating applications starting today

**Paycheck Protection Program  
Application Form**

OMB Control No.: 1545-  
Expiration Date: 06/30/2020

<input type="checkbox"/> Non-Profit <input type="checkbox"/> Vet Org <input type="checkbox"/> Tribal <input type="checkbox"/> Ind. Cont. <input type="checkbox"/> Self Employed		DBA or Tradename if applicable	
Business Legal Name			
Business Primary Address		Business TIN (EIN, SSN)	Business Phone
		Primary Contact	Email Address

Average Monthly Payroll: \$ \_\_\_\_\_ x 2.5 equals Loan Amount: \$ \_\_\_\_\_ Number of Jobs: \_\_\_\_\_

Purpose of the loan (select more than one):  
 Payroll  Rent  Mortgage Interest  Utilities  Other (specify): \_\_\_\_\_

**Applicant Ownership**  
List all owners of Applicant with greater than 20% ownership stakes. Attach a separate sheet if necessary.

Owner Name	Title	Ownership %	TIN (EIN, SSN)	Address

*Questions (1) or (2) below are answered "Yes" - the loan will not be approved.*

Question	Yes	No
1. Is the Business or any owner presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?	<input type="checkbox"/>	<input type="checkbox"/>
2. Has the Business, any of its owners, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?	<input type="checkbox"/>	<input type="checkbox"/>
3. Is the Business or any owner an owner of any other business or have common management with any other business? If yes, attach a listing of all Affiliates and describe the relationship as addendum A.	<input type="checkbox"/>	<input type="checkbox"/>
4. Has the Business received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.	<input type="checkbox"/>	<input type="checkbox"/>

*Applicants who are individuals and all 20% or greater owners of the business must answer the following questions. If questions (5) or (6) are answered "Yes" or question (7) is answered "No", the loan will not be approved.*

Question	Yes	No
5. Are you presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction, or presently incarcerated, on probation or parole? Initial here to confirm your response to question 5 ->	<input type="checkbox"/>	<input type="checkbox"/>
6. Within the last 7 years, for any felony or misdemeanor for a crime against a minor, have you: 1) been convicted; 2) pleaded guilty; 3) pleaded not guilty; 4) been placed on pretrial diversion; or 5) been placed on any form of parole or probation (including probation before judgment)? Initial here to confirm your response to question 6 ->	<input type="checkbox"/>	<input type="checkbox"/>
7. <input type="checkbox"/> I am a U.S. Citizen. <b>OR</b> <input type="checkbox"/> I have Lawful Permanent Resident status <input type="checkbox"/> No Initial here to confirm your response to question 7 ->	<input type="checkbox"/>	<input type="checkbox"/>

SBA Form 2483 (03/20)

## Application Link:

<https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf>

## Official Borrower PPP Guide

<https://home.treasury.gov/system/files/136/PPP--Fact-Sheet.pdf>

**PPP Loan Information**  
*Paycheck Protection Program - Detailed Application Info*

**PPP Information Needed for Application:**

Entity Type (if applicable):	N/A
Business Legal Name:	
Business Primary Address:	
DBA or Tradename (if Applicable):	
Business TIN (EIN, SSN):	
Primary Contact:	
Business Phone:	
Email Address:	
Average Monthly Payroll: x2.5 Equals Loan Amount:	0
Number of Jobs: (Purpose of the Loan) Choose:	Payroll

**Applicant Ownership.**  
List all owners of Applicant with greater than 20% ownership stakes.

Owner Name:	
Title:	
Ownership %:	
TIN (EIN, SSN):	
Address:	
Owner Name:	
Title:	
Ownership %:	
TIN (EIN, SSN):	
Address:	
Owner Name:	
Title:	
Ownership %:	
TIN (EIN, SSN):	
Address:	

**Questions**

1. Is the Business or any owner presently suspended, debarred, proposed for debarment, declared ineligible, voluntarily excluded from participation in this transaction by any Federal department or agency, or presently involved in any bankruptcy?	
2. Has the Business, any of its owners, or any business owned or controlled by any of them, ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted in the last 7 years and caused a loss to the government?	
3. Is the Business or any owner an owner of any other business or have common management with any other business? If yes, attach a listing of all Affiliates and describe the relationship as addendum A.	
4. Has the Business received an SBA Economic Injury Disaster Loan between January 31, 2020 and April 3, 2020? If yes, provide details on a separate sheet identified as addendum B.	
5. Are you presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction, or presently incarcerated, on probation or parole?	
6. Within the last 7 years, for any felony or misdemeanor for a crime against a minor, have you: 1) been convicted; 2) pleaded guilty; 3) pleaded not guilty; 4) been placed on pretrial diversion; or 5) been placed on any form of parole or probation (including probation before judgment)?	
7. I am a U.S. Citizen OR I have a lawful permanent resident status	

# How To Apply for SBA PPP Loan

- Exact next steps to apply for the PPP Loan program are still being finalized
- That said, all teams can begin researching and understanding the SBA PPP Loan Program and begin preparing their application materials
- The applications are live and application submissions will be accepted starting on Friday 4/3/2020

1

## Research and Understand PPP

- Read and understand the SBA Paycheck Protection Program and confirm that your company should apply for the funds

2

## Prepare Draft Application

- Eligible companies should prepare a first draft of their application

3

## Prepare Draft Application

- You can apply through any existing SBA lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating.
- Other regulated lenders will be available to make these loans once they are approved and enrolled in the program.

4

## Submit Application on Friday 4/3

- Applications open on April 3, 2020 (Time = TBD)
- Anecdotal advice is to be first in line for loan application, don't wait