PAYCHECK PROTECTION PLAN FAQ

Brought to you by the team at Southwest Michigan First, we hope these Frequently Asked Questions will aid in your decision to pursue the Paycheck Protection Plan (PPP). As we have seen the rules around the program change since its announcement as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, we encourage you to consult with your corporate counsel and lender to confirm answers to your specific questions of concern..

What is the Paycheck Protection Plan (PPP)?

The Coronavirus Aid, Relief, and Economic Security (CARES) Act allocated $350 billion to help small businesses keep workers employed amid the pandemic and economic downturn. Known as the Paycheck Protection Program, (PPP) the initiative provides 100% federally guaranteed loans to small businesses who maintain their payroll during the COVID-19 emergency.

If employers maintain their payroll, the loans would be forgiven, which would help workers remain employed, as well as help affected small businesses and our economy snap-back quicker after the crisis. PPP has a host of attractive features, such as forgiveness of up to 8 weeks of payroll based on employee retention and salary levels, no SBA fees, and at least six months of deferral with maximum deferrals of up to a year. Small businesses and other eligible entities will be able to apply if they were harmed by COVID-19 between February 15, 2020 and June 30, 2020. This program would be retroactive to February 15, 2020, in order to help bring workers who may have already been laid off back onto payrolls. Loans are available through June 30, 2020.

What types of businesses and entities are eligible for a PPP loan?

- Businesses and entities must have been in operation on February 15, 2020.
- Small business concerns, as well as any business concern, a 501(c)(3) nonprofit organization, a 501(c)(19) veterans organization, or Tribal business concern described in section 31(b)(2)(C) that has fewer than 500 employees, or the applicable size standard in number of employees for the North American Industry Classification System (NAICS) industry as provided by SBA, if higher.
- Individuals who operate a sole proprietorship or as an independent contractor and eligible self-employed individuals.
- Any business concern that employs not more than 500 employees per physical location of the business concern and that is assigned a NAICS code beginning with 72, for which the affiliation rules are waived.
- Affiliation rules are also waived for any business concern operating as a franchise that is assigned a franchise identifier code by the Administration, and company that receives funding through a Small Business Investment Company.

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What are affiliation rules?

Affiliation rules become important when SBA is deciding whether a business's affiliations preclude them from being considered "small." Generally, affiliation exists when one business controls or has the power to control another or when a third party (or parties) controls or has the power to control both businesses. Please see this resource for more on these rules and how they can impact your business's eligibility.

Addendum A is available here to calculate your affiliation.

What types of non-profits are eligible?

In general, 501(c)(3) and 501(c)(19) non-profits with 500 employees or fewer as most non-profit SBA size standards are based on revenue, not employee number. You can check here.

How is the loan size determined?

Depending on your business's situation, the loan size will be calculated in different ways (see below). The maximum loan size is always **$10 million**.

- If you were in business February 15, 2019 – June 30, 2019: Your max loan is equal to 250 percent of your average monthly payroll costs during that time period. If your business employs seasonal workers, you can opt to choose March 1, 2019 as your time period start date.
- If you were not in business between February 15, 2019 – June 30, 2019: Your max loan is equal to 250 percent of your average monthly payroll costs between January 1, 2020 and February 29, 2020.
- If you took out an Economic Injury Disaster Loan (EIDL) between February 15, 2020 and June 30, 2020 and you want to refinance that loan into a PPP loan, you would add the outstanding loan amount to the payroll sum.
- Other businesses have a choice between averaging all of calendar year 2019 or a rolling 12-months (e.g. April 1, 2019 to April 1, 2020).

What costs are eligible for payroll?

- Compensation (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 employees

What costs are not eligible for payroll?

- Employee/owner compensation over $100,000
- Taxes imposed or withheld under chapters 21, 22, and 24 of the IRS code
- Compensation of employees whose principal place of residence is outside of the U.S.
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.

The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of $100,000. Does that exclusion apply to all employee benefits of monetary value?

No. The exclusion of compensation in excess of $100,000 annually applies only to cash compensation, not to non-cash benefits including:

- Employer contributions to defined-benefit or defined-contribution retirement plans;
- Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and
- Payment of state and local taxes assessed on compensation of employees.

What are allowable uses of loan proceeds?

- Payroll costs (as noted above)
- Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
- Employee salaries, commissions, or similar compensations (see exclusions above)
- Payments of interest on any mortgage obligation (which shall not include any prepayment of or payment of principal on a mortgage obligation)
- Rent (including rent under a lease agreement)
- Utilities
- Interest on any other debt obligations that were incurred before the covered period

What are the loan term, interest rate and fees?

For any amounts not forgiven, the maximum term is 10 years, the maximum interest rate is 4 percent, zero loan fees, zero prepayment fee (SBA will establish application fees caps for lenders that charge).

How is the forgiveness amount calculated?

Forgiveness on a covered loan is equal to the sum of the following payroll costs incurred during the covered 8 week period compared to the previous year or time period, proportionate to maintaining employees and wages (excluding compensation over $100,000):

- Payroll costs plus any payment of interest on any covered mortgage obligation (not including any prepayment or payment of principal on a covered mortgage obligation) plus any payment on any covered rent obligation plus and any covered utility payment.
    - A minimum of 75% of the loan has to be used for payroll costs, and no more that 25% can be used for non-payroll costs.

How do I get forgiveness on my PPP loan?

You must apply through your lender for forgiveness on your loan. In this application, you must include:

- Documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and State income, payroll and unemployment insurance filings.
- Documentation verifying payments on covered mortgage obligations, lease obligations, and utilities.
- Certification from a representative of your business or organization that is authorized to certify that the documentation provided is true and that the amount that is being forgiven was used in accordance with the program's guidelines for use.

What happens after the forgiveness period?

Any loan amounts not forgiven are carried forward as an ongoing loan with max terms of 10 years, at a maximum interest rate of 4%. Principal and interest will continue to be deferred, for a total of 6 months to a year after disbursement of the loan. The clock does not start again.

Update: As of April 7, 2020: The SBA set the loan maturity at 2 years, not 10. It also set the interest rate at 1%, not 4%.

Can I get more than one PPP loan?

No, an entity is limited to one PPP loan. Each loan will be registered under a Taxpayer Identification Number at SBA to prevent multiple loans to the same entity.

Where can I get guidance from the U.S. Treasury as guidance on the SBA's interpretation of the CARES Act and of the Paycheck Protection Program Interim Final Rule?

A link to the Paycheck Protection Program's Final Rule is available here.

The U.S. Treasury's detailed FAQ can be found here.

Where should I go to get a PPP loan from?

All current SBA 7(a) lenders (see more about 7(a) here) are eligible lenders for PPP. The Department of Treasury will also be in charge of authorizing new lenders, including non- bank lenders, to help meet the needs of small business owners.

Here's a link to suggested SBA lenders in Southwest Michigan.

How does the PPP loan coordinate with SBA's existing loans?

Borrowers may apply for PPP loans and other SBA financial assistance, including Economic Injury Disaster Loans (EIDLs), 7(a) loans, 504 loans, and microloans, and also receive investment capital from Small Business Investment Corporations (SBICs). However, you cannot use your PPP loan for the same purpose as your other SBA loan(s). For example, if you use your PPP to cover payroll for the 8-week covered period, you cannot use a different SBA loan product for payroll for those same costs in that period, although you could use it for payroll not during that period or for different workers.

How does the PPP loan work with the temporary Emergency Economic Injury Grants and the Small Business Debt Relief program?

Emergency Economic Injury Grant and Economic Injury Disaster Loan (EIDL) recipients and those who receive loan payment relief through the Small Business Debt Relief Program may apply for and take out a PPP loan as long as there is no duplication in the uses of funds. Refer to those sections for more information.

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Small Business Application for PPP Loan

Loan Eligibility:			CARES Act Parameters:
• Employees:	45	☑	≤500 EE
• Industry:	Gift Store		(note: accommodations and food services which is ≤500 per location)
NAICS:	53220		
• Operation Date:	1/30/18	☑	operates before 2/15/20
• Annual Revenue:	$799,000	☑	no limit because business qualifies by EE guideline

Business Expenses:			
• Payroll:	$669,000		
Salaries & Wages (highest is $85K)	$625,000	☑	payroll excludes costs over annualized $100K for each EE
		☑	not covered already by FFCRA
Bonus / Commissions	$5,000		
Dental Insurance	$8,000		
Health Insurance	$20,000		
Life/Std/Ltd	$4,000		
Section 125	$2,000		
401K	$3,000		
Vision Insurance	$2,000		
• Monthly Mortgage (principal + interest):	$8,500		
• Utilities:	$4,000		

Qualifying PPP Loan Amount:			
Avg Monthly Payroll (Payroll/12):	$55,750		
x 2.5 = qualifying loan amount	$139,375	←	lesser of 2.5x monthly payroll or $10mm

Use of Loan:			
8-weeks (~2 months):		☑	costs incurred from 2/15/20 to 6/30/20
Payroll:	$111,500		
Monthly Mortgage (principal + interest):	$17,000	☑	mortgage in place before 2/15/20
Utilities:	$8,000		
Qualifying Expenses - Total:	$136,500		

Loan Forgiveness:			
Amount Forgiven (aka "PPP Grant"):	$136,500	☑	payroll ≥ 75% of use ($111,500 / $139,375)
Amount Converted into a PPP Loan:	$2,875		specific requirements exist for loan forgiveness per SBA

This analysis represents a fictitious business per SBA guidance as of April 2, 2020 and is to be used as an example only. Southwest Michigan First is not held responsible for the accuracy of the application of CARES Act guidelines. Please talk to your lender for individual details.