



**BCT**  
COMMERCIAL LENDING

2020



## Paycheck Protection Program (PPP) Forgiveness Update

June 4, 2020

# Disclaimer

These materials are presented with the understanding that the information provided is not legal, tax, or accounting advice. **Due to the rapidly changing nature of the law, information contained in this presentation may become outdated.**

Anyone using information contained in this presentation should always research original sources of authority and update this information to ensure accuracy when dealing with a specific matter. No person should act or rely upon the information contained in this presentation without seeking the advice of a licensed professional.

# Agenda

- Welcome – Alice Frazier, BCT President & CEO
- Regulatory Update
- Resources
- Panel Discussion
  - Part 1; Forgiveness Process & Timeline
  - Part 2; Forgiveness Eligibility Information
- Q&A



**BCT**

# Regulatory Update

- H.R. 7010 will require President Trump's approval
- SBA & US Treasury will update additional guidance
- <https://www.congress.gov/bill/116th-congress/house-bill/7010/text>

# Regulatory Update

- The Paycheck Protection Program Flexibility Act of 2020 (H.R. 7010) included provisions to:
  1. extend from eight to 24 weeks the amount of time borrowers have to spend PPP funds,
  2. lower the amount that must be spent on payroll costs from 75 percent to 60 percent,
  3. extend the June 30 rehiring deadline,
  4. extend the payment deferral from 6 months to 12 months, and
  5. After forgiveness, lender and borrower may mutually agree to extend term of the loan of up to five years

# Important SBA Resources/Documents

- **PPP Forgiveness Application**
  - <https://www.sba.gov/document/sba-form--paycheck-protection-program-loan-forgiveness-application>
- **Interim Final Rule: Requirements – Loan Forgiveness**
  - <https://www.sba.gov/document/support--ppp-interim-final-rule-requirements-loan-forgiveness>
- **SBA PPP FAQ**
  - <https://www.sba.gov/document/support--faq-lenders-borrowers>
- **BCT FAQ**
  - [www.mybct.com/sba-payroll-protection-program](http://www.mybct.com/sba-payroll-protection-program)

# Panelists



**Raymond Goodrich**  
EVP – Chief Lending Officer



**Aaron Howell**  
SVP – Community Banking  
Executive



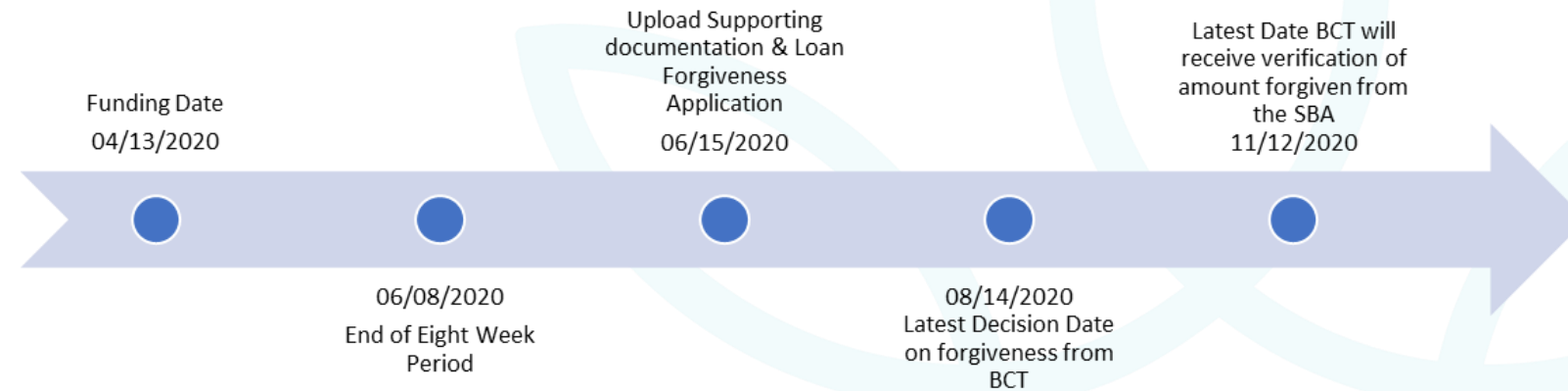
# Next Steps to Loan Forgiveness

- BCT is implementing a portal solution to simplify the process as much as possible for you
- This portal will soon be “live” and available on our website
- More details will be provided via email

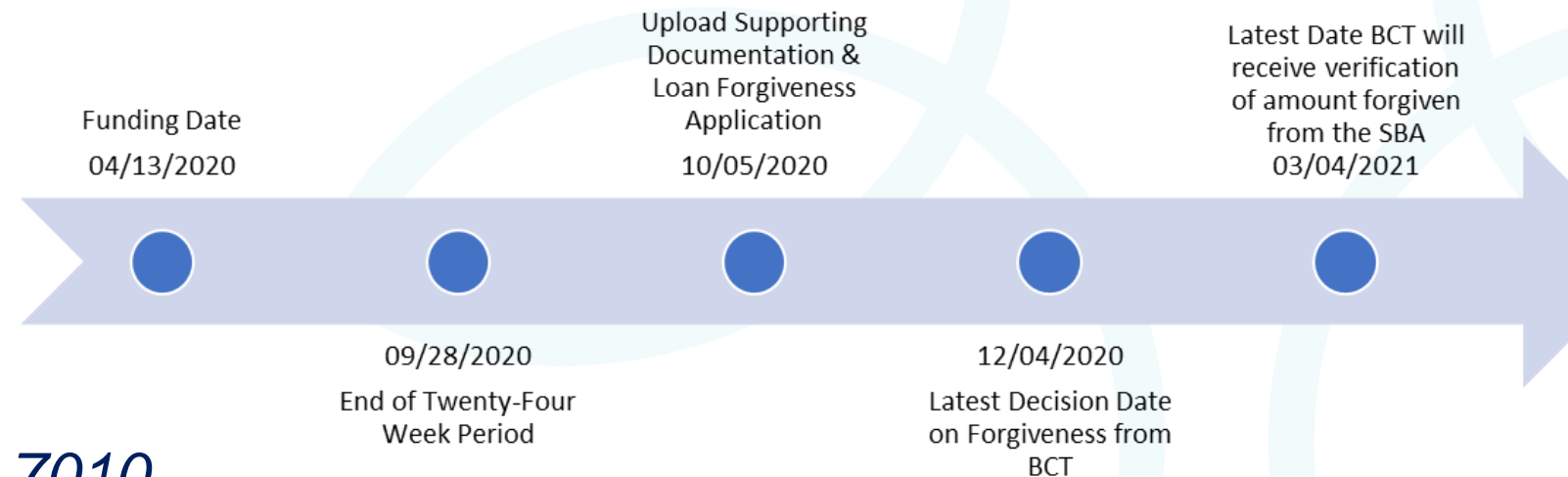
# Process Timeline and Loan Forgiveness\*

- Enter information and supporting documentation within the online portal
- BCT has 60 days upon receipt of a complete package to issue a decision
- The SBA will then have 90 days to review and remit payment to the bank
- Unforgiven portion becomes a loan (payments begin in 7<sup>th</sup> month)

## Current Timeline



## Potential Timeline



*\*may change as a result of H.R. 7010*

# Documents for Loan Forgiveness Application

- Items completed within the online portal
  - Loan Forgiveness Application
  - PPP Loan Forgiveness Calculation Form
  - PPP Schedule A

# Supporting Documentation Required

- Payroll; Verify eligible cash compensation and non-cash benefit payments from the selected covered period with each of the following:
  - Bank account statements or third-party payroll service provider reports
  - Tax forms (or equivalent third-party payroll service provider reports)
  - Payment receipts, cancelled checks, or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that was included in the forgiveness amount
- **FTE; Documentation supporting the Reference Period**
  - Borrowers will select a reference period to compare against the number of current FTEs
  - Three options:
    - February 15, 2019 through June 30, 2019 or
    - January 1, 2020 through February 29, 2020 or
    - In the case of a seasonal employer, either of the two preceding methods or a consecutive 12-week period between May 1, 2019 and September 15, 2019

# Supporting Documentation Required

- Nonpayroll - Documentation verifying the existence of obligations/services prior to February 15, 2020 and eligible payments from the covered period.
  - Business mortgage interest payments (real or personal property)
  - 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.
  - 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.

# Other Documents Required to Maintain (but not Submit)

- PPP Schedule A Worksheet and Supporting Documentation
- All records relating to your PPP loan, including documentation submitted with PPP loan application
- Borrower and lender both must retain all such documentation for six years after the date the loan is forgiven or repaid in full

# Forgiveness Eligibility

# Forgiveness Eligibility

- Payroll Costs
- Interest Payments (real or personal property)
- Business rent obligations
- Business Utilities



# The Eligible Periods in PPP\*

## Covered Period

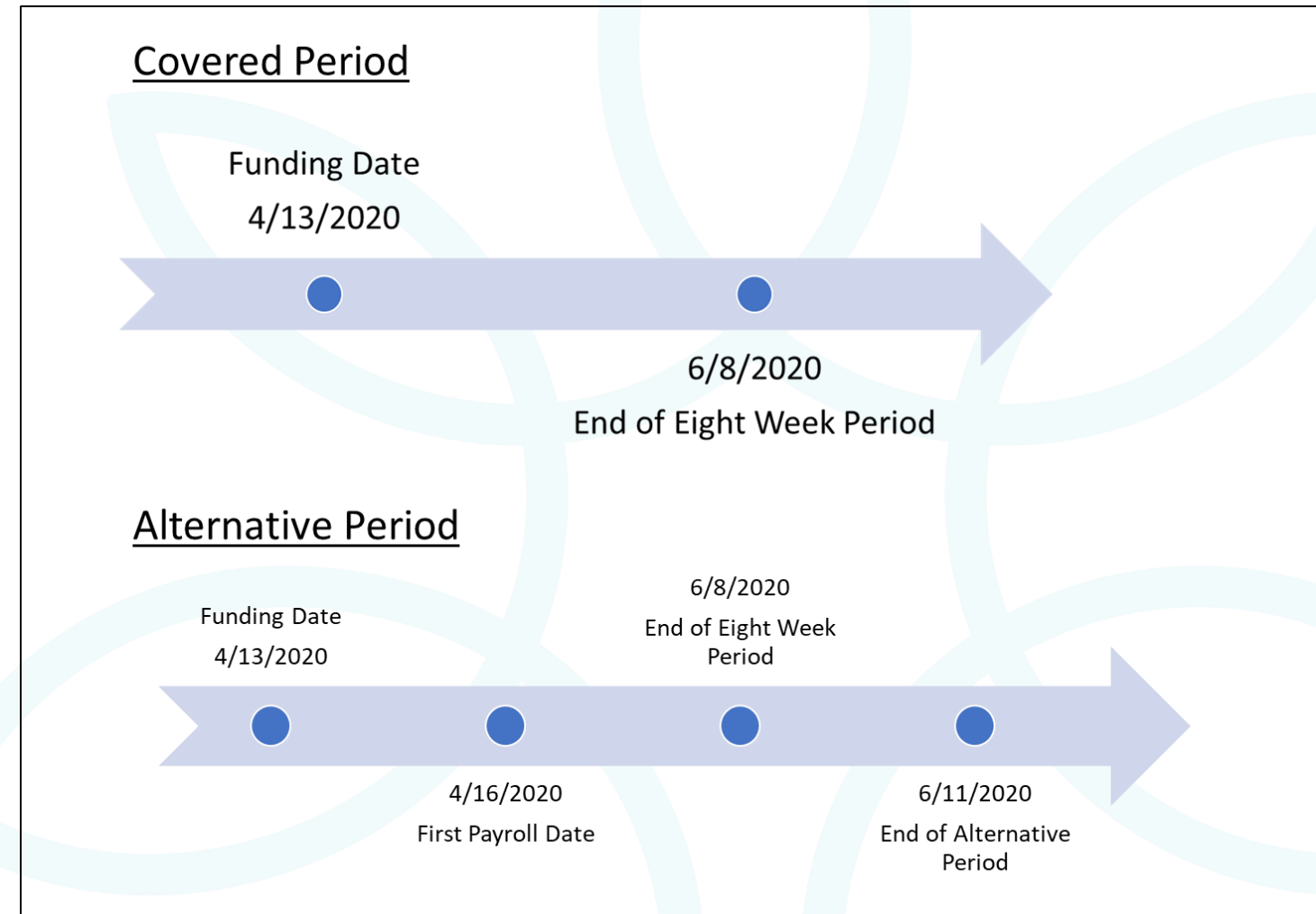
- Defined as the 8-week period that starts on the exact day of the PPP loan disbursement.
- Rent, Utilities, and other expenses must refer to this period.

## Alternative Payroll Covered Period

- Defined as the 8-week period starting on the first day of the company's pay period following the PPP loan disbursement.
- Alternative Payroll Period **only** applies to payroll costs.

**New Guidance May Extend This to 24 Weeks**

*\*may change as a result of H.R. 7010*



# Payroll Cost Qualifications\*

- Cash Compensation – includes gross salary, wages, gross tips, paid leave, furlough payments, hazard pay, and bonuses.
  - Total for each individual employee is capped at \$15,385 ( $\$100,000/52 * 8$ )
  - Owner-employees' payroll compensation can be no more than **the lesser of 8/52** of 2019 compensation or \$15,385 per individual
- Other payroll costs – includes employer contributions for employee health, insurance, retirement plans, and employer state/local unemployment taxes assessed on employee compensation.
- Timeline:
  - Any payroll cost that is both incurred and paid during the two covered periods will be forgiven.
  - Payroll costs that are incurred in either period and are paid after the period, but on or before the next regular pay day are eligible

*\*may change as a result of H.R. 7010*

# Payroll Cost Qualifications\*

- Independent Contractor / Schedule C Business
  - Schedule C filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit (cannot exceed \$15,385)
  - No additional forgiveness is provided for retirement or health insurance contributions for self employed individuals, including schedule C filers and general partners, as such expenses are paid out of net self-employment income.

*\*may change as a result of H.R. 7010*

# Other Eligible Non-Payroll Costs

- Interest Payments & Business Rent (real and personal property)
  - Leases/loans entered into before February 15, 2020
  - Paid during the covered period
  - Incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.
- Not Eligible for Forgiveness:
  - Advanced payments of interest on a covered mortgage obligation

# Other Eligible Non-Payroll Costs

- **Business Utilities**
  - Service in place before February 15, 2020
  - Utility payments incurred or due during the covered period:
    - Electricity
    - Gas
    - Water
    - Transportation (Example – fuel for business auto)
    - Telephone and Internet Access

# How do you calculate average FTE?

## Method One:

- Enter the average number of hours paid per week and divide by 40 (rounding to the nearest tenth)

## Method Two:

- Assign a value of 1.0 to employees who recorded 40 hours or more per week and 0.5 value for employees working less than 40 hours per week.

# How do you calculate average FTE?

Employee	Hours Worked	Method One	Method Two
A	48	1	1
B	25	0.6	0.5
C	51	1	1
D	12	0.3	0.5
E	36	0.9	0.5
F	40	1	1
Sum		4.8	4.5

## Method One-

Hours worked divided by 40. Cap at 1.0 for each employee.

## Method Two-

FTE value is 1.0 all employees working 40 hours or more. FTE value is 0.5 for all employees working less than 40 hours.

# How do you calculate average FTE?

## Tip:

In general, if you have more part time employees working between 20-40 hours/week, method one is likely the better option. If most of your part time employees are less than 20 hours/week, method two is likely better.



# Personnel Reduction Impact on Forgiveness\*

- Example:
  - Loan Amount = \$50,000
  - Eligible forgiveness threshold is met
  - 10 FTEs in reference period
  - 8 FTEs in covered period
  - The 20% reduction in FTEs results in a 20% (\$10,000) reduction in forgiveness

*\*may change as a result of H.R. 7010*

# Salary Reduction Impact on Loan Forgiveness

- Scenario:
  - A full-time employee previously made \$1,000/week.
  - During the covered, period that employee continued to work full-time but the pay was reduced to \$700/week, a reduction of 30%.
  - The law provides that a reduction of up to 25% is exempt from penalty

# Salary Reduction Impact on Loan Forgiveness\*

- Example:
  - Employee previously earned \$1,000/week during the reference period
  - During covered period, employee continued to work 40 hrs/week (1.0 FTE)
  - During covered period, employee earned only \$700/week
  - Pay was reduced \$300/week (\$1,000 - \$700)
  - The first \$250 reduction is exempt from penalty (25% x \$1,000)
  - \$50/week represents the amount of salary reduction not exempt (\$300 - \$250)
  - \$50 x 8 weeks (covered period) = \$400 total
  - Borrowers would list \$400 as the salary/hourly wage reduction for that employee

*\*may change as a result of H.R. 7010*

# Exceptions to Reduction Penalty\*

- FTE Safe Harbor - A borrower reduced FTE levels from February 15, 2020 to April 26, 2020 and restored FTE levels by June 30, 2020, the borrower will not be penalized regarding the amount forgiven.
- Borrower made a good faith, written offer to rehire employee (or, if applicable, restore the reduced hours of such employee) during the covered period or the alternative payroll covered period and the offer was rejected
- Any employee during the loan period that was fired for cause, voluntarily resigned, or voluntarily requested a reduction in hours will have **no** effect on the forgiven amount.

*\*may change as a result of H.R. 7010*

# Factors Affecting Loan Forgiveness\*

- Misuse of Funds – Money that is used outside of the regimented payroll and non-payroll costs.
  - Example – Loan proceeds used to purchase additional inventory.
- Failure to Maintain Salaries/Personnel
  - Personnel – Eligible forgiveness will reduce if there is a reduction in FTE or full-time employees.
  - Salary – Reduction in forgiveness will occur if wages for an employee decrease in excess of 25% which is compared to their wages in their latest full quarter.
- Failure to use at least **75% (60%)\*** of loan on payroll costs
- Receipt of Economic Injury Disaster Loan (EIDL) Advance
  - Example – A \$300,000 PPP loan was disbursed. All \$300,000 was forgiven however, the company had received \$5,000 in an EIDL advance which means \$295,000 is forgiven. (PPP - EIDL Advance = Eligible Forgiveness)

*\*may change as a result of H.R. 7010*

# Key Takeaways

- Stay informed on the changing laws/guidance
- Have as much documentation as possible to support the request
- Time is of the essence when applying for forgiveness
- A portal is coming soon to help simplify your process



# BCT

Submit additional questions to:  
[ppphelp@mybct.com](mailto:ppphelp@mybct.com)