Paycheck Protection Program (PPP) Overview

ECONOMIC INNOVATION GROUP

Updated 6/4/2020 after the passage of the *Paycheck Protection Program Flexibility Act*

Covered Loan Period	• Retroactive to February 15, 2020. The *Paycheck Protection Program Flexibility Act (PFA)* extended the loan covered period from June 30, 2020, to December 31, 2020
Application Period	• April 3: Small businesses and sole proprietorships can start applying for paycheck protection loans from existing SBA lenders • April 10: Independent contractors and self-employed individuals can start applying for paycheck protection loans from existing SBA lenders • June 30, 2020: The program application window closes

Eligible Businesses	• Small businesses, nonprofits, Tribal business concerns, and veteran's organizations that:
	    • Have less than 500 employees or the applicable size standard for the industry as provided by SBA, or
	    • Are sole proprietors, self-employed individuals, or independent contractors
	    • Were in business on February 15, 2020

Maximum Loan Amount	• The lesser of:
	    • 2.5X average monthly payroll costs during the 1-year period* before the date on which the loan is made, or
	    • $10 million
	    • **For new businesses, the measurement period would be Jan. 1 to Feb. 29, 2020*
	• The legislation also temporarily increases the maximum amount for an SBA Express loan from $350,000 to $1 million through December 31, 2020

Guarantees	• Increases the government guarantee of 7(a) loans to 100 percent through December 31, 2020
Allowable Uses	• Payroll costs (capped at $100,000 on an annual basis for each employee) • Health care benefits (including paid sick or medical leave, and insurance premiums) • Mortgage interest obligations • Rent obligations • Utility payments • Interest on other debt obligations incurred previous to Feb. 15, 2020
Eligible Lenders	• SBA-guaranteed lenders. SBA and the Department of the Treasury are granted authority to determine additional lenders to administer the Payment Protection Program loans
Maturity Schedule	• The PFA extended the maturity term from 2 years to a minimum of 5 years for loans issued after passage of PFA
Interest Rate	• 1 percent fixed rate
Payment Deferral	• The PFA modified the deferral period from not less than six months and not more than one year to a deferral on payments until the date the amount of loan forgiveness is remitted to the lender

Terms of Loan Forgiveness (Sec. 1106)	• The PFA extended the covered period for loan forgiveness from 8-weeks to the earlier of a 24-week period after the loan's origination date or December 31, 2020, in the amount equal to the sum of the following costs incurred during that period:
	    • Payroll costs (capped at $100,000 on an annual basis for each employee)
	    • Payment of interest on mortgage obligation
	    • Rent obligations
	    • Utility payments
	• Not more than 40 percent of the forgiven loan amount may be used for non-payroll costs (increased from 25 percent by the PFA).
	• If a business took out a SBA Economic Injury Disaster Loan (EIDL) related to COVID-19 between January 31 and April 3, 2020, the borrower may refinance the loan under this program and receive loan forgiveness benefits on the refinanced amount.
	• The amount forgiven cannot exceed the amount borrowed.
	• Loan forgiveness will be proportionally reduced if the average number of employees is reduced during the covered period as compared to the same period in 2019. The amount of loan forgiveness will be reduced by the amount of any reduction in total employee salary or wages during the covered period that is in excess of 25 percent of the total salary or wages. The PFA provided that if the borrower can demonstrate the inability to rehire or hire new employees by December 31, 2020 (the rehire deadline was June 30, 2020, prior to PFA passage), or experience continued disruption of business activity, their loan forgiveness amount will not be reduced.
	    • Payroll documentation and documentation of expenses are required to receive forgiveness, to ensure the forgiveness was used to retain employees and pay expenses
	    • Borrowers that rehire laid off workers by December 31 won't be penalized for having a smaller workforce at the beginning of the period
	    • Borrowers with tipped workers may receive loan forgiveness for the additional wages paid to those employees.
	• The canceled loan amount will not count towards gross income for tax purposes.
	• The PFA requires borrowers to apply for loan forgiveness within 10 months of the end of the covered period. Borrowers who do not apply within 10 months will be required to start submitting payments on principal, interest, and fees.

Waivers	• Borrower and lender fees are waived • Prepayment fees are waived • The Credit Elsewhere requirement is waived
Borrower Requirements	• Borrower will need to provide lender with payroll documentation • Good faith certification that the loan is necessary because of economic uncertainty caused by COVID-19 and will be applied to maintain payroll and make required payments • Borrower must also certify that they are not receiving this assistance and duplicative funds for the same uses from another SBA program • No collateral or personal guarantee are required
Nonbinding Guidance	• Lenders should prioritize small businesses, entities in underserved and rural markets, veterans and members of the military community, small business concerns owned by socially and economically disadvantaged individuals, women, and businesses in operation for less than 2 years

Lender Reimbursements	• Lenders will be reimbursed at the following rates based on the balance of the financing outstanding at the time of loan disbursement:
	    • 5 percent for loans up to and including $350,000
	    • 3 percent for loans between $350,000 and $2,000,000
	    • 1 percent for loans above $2,000,000

Appropriated Amounts for Program	• $349 billion in Tranche 1 and $310 billion in Tranche 2