

What to Do After Receiving a PPP Loan

In response to the debilitating effect the coronavirus (COVID-19) pandemic has had on small businesses across the country, the federal government funded a program under the Coronavirus Aid, Relief and Economic Security Act (CARES Act) called the Paycheck Protection Program (PPP).

Approximately \$670 billion has been allocated to the PPP fund, and small businesses across the country have sent in their applications to hopefully receive assistance from this loan program. If your business secured a PPP loan, you may be wondering what your next steps should be. This article provides a general overview of PPP loans and what employers should do if they receive an approved PPP loan.

REVIEW PPP LOAN TERMS

The PPP is designed to get cash in the hands of suffering small businesses quickly, with less stringent eligibility requirements than the existing U.S. Small Business Administration (SBA) loan programs. PPP loans are designed to incentivize business owners to keep employees on payroll. These loans provide 100% federally guaranteed loans to small businesses, through Jun. 30, 2020. Importantly, these loans may be forgiven if borrowers maintain their payrolls during the crisis.

The terms of a PPP loan are as follows:

- The amount of a PPP loan available to each borrower is 2.5 times the borrower's average monthly payroll costs, not to exceed \$10 million.
- PPP loans require no collateral, have a maximum 10-year term, and an interest rate of no more than 4%.
- The loans are available to eligible companies to be used for the following costs incurred from Feb. 15, 2020, through Jun. 30, 2020:
 - Payroll (e.g., salary, wage, parental, family, and medical or sick leave)
 - Health care benefits and related insurance premiums
 - Employee compensation
 - Mortgage interest obligations
 - Rent and utilities
- A borrower of a PPP loan is eligible for loan forgiveness equal to the amount spent during the eight-week period after the date of the original loan for rent on a leasing agreement, payroll costs (including wages for U.S. employees capped at \$100,000 per employee), mortgage interest and utilities. The amount forgiven may be reduced if the borrower reduces the number of employees, or salaries and wages of employees. Borrowers must apply through their lender for forgiveness on the loan.

Employers should work with their SBA-approved lender for any questions related to their PPP loan.

USING FUNDS APPROPRIATELY TO REMAIN ELIGIBLE FOR FORGIVENESS

U.S. small businesses that were able to secure financial relief through the SBA's Payroll Protection Program should consider the following to help their cause for qualification of forgiveness of the full principal amount of the loan and any accrued interest:

- Use the loan funds only toward: payroll, including salary, wages, tips and covered benefits for employees; rent or mortgage interest; and utilities.
- Ensure at least 75% of loan funds are allocated for payroll costs.
- Maintain the level of full-time employee (FTE) headcount without reduction during the eight-week covered period.
- Maintain the salaries and wages of your workforce during the eight-week covered period. Any reduction of more than 25% for any employee who makes less than \$100,000 will reduce the amount forgiven.
- Preserve proper documentation to support the amount of proceeds used for payroll costs, rent or mortgage, and utilities.
- Prior to June 30, 2020, restore all full-time employment and salary levels back from any reductions made between Feb. 15, 2020, and April 26, 2020.

As mentioned above, preserving proper documentation is important, as this information will be used by your lender when evaluating whether an employer qualifies for PPP loan forgiveness. For more information regarding loan forgiveness eligibility, click [here](#).

APPLYING FOR LOAN FORGIVENESS

The CARES Act requires employers to apply for loan forgiveness with the same lender they applied for the PPP loan at the end of the eight-week period following the disbursement of their loan. When applying for loan forgiveness, employers will need to provide the following information:

- The total requested amount to be forgiven
- Documentation verifying the number and pay rate of FTEs on payroll, including:
 - Payroll tax filings with the IRS
 - State income, payroll and unemployment insurance filings
- Documentation verifying covered mortgage interest, rent or lease obligations, and utilities
- Certification from an authorized representative for the employer that all supplied documentation is true to the fullest extent possible
- Certification from an authorized representative for the employer that the amount requested to be forgiven complies with PPP guidelines

After submitting an application, lenders must make a decision on whether an employer's PPP loan will be forgiven, or how much of the loan will be forgiven, within 60 days. In some cases, a lender may ask for additional information. Employers should monitor their application and pay attention to any requests for additional information. For questions on your company's loan forgiveness eligibility or application, contact your lender.

REPAYING A PPP LOAN

If your lender does not approve your loan for forgiveness, or only approves part of your loan for forgiveness, you will be required to repay your loan. While payments for the loan principal and interest are deferred for six months, interest will continue to accrue. Loan repayment is due in two years, and any forgiven amounts are considered nontaxable.

BEST PRACTICES

If your company has received a PPP loan, there are a few things you can do to prepare your company for applying for loan forgiveness:

- **Review your employee data**—Understanding and documenting your FTE headcount is essential, as this data needs to be documented for your forgiveness application. Be sure to review the number of FTE employees you had on Feb. 15, 2020, and how many you have on June 30, 2020.
- **Meticulously document and retain information**—All expenses paid for with PPP funds should be documented, and receipts should be retained. Keep this information as organized as possible, as you'll need to provide it when you apply for forgiveness.
- **Understand forgiveness is not guaranteed**—PPP loan forgiveness isn't guaranteed, as it is at the discretion of each lender. Additionally, it's possible that part, but not all, of your PPP loan will be forgiven. Your company should be prepared to repay your loan should it not be forgiven.

For further guidance about your specific PPP loan, consult with your lender.

ADDITIONAL PANDEMIC GUIDANCE

For more information on how your company can respond to the COVID-19 pandemic, contact Brown & Brown Benefit Advisors.