



# Paycheck Protection Program: What Businesses Should Know

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# Agenda

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- About the Paycheck Protection Program (PPP) & Impacts to Your Business
- Business Eligibility & Related Requirements for Relief
- Maximum Loan Amount
- Loan Forgiveness Criteria & Limitations
- Forgiveness Application Processes
- How Mercadien Can Help
- Q&A



# Paycheck Protection Program (PPP)

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- Emergency lending facility
- Administered by the Small Business Administration (SBA) under its 7(a) lending program
- Provides small business loans on favorable terms to borrowers impacted by the current state of economic uncertainty
  - Interest rate at 1.0% & loans are due in 2 years
- Designed to offer a direct incentive for small businesses to keep their workers on payroll by providing each small business a loan up to \$10 million for payroll & certain other expenses



# Other Items to Note About the Program

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- Each borrower is presumed to be an *impacted borrower*, which requires lenders to provide payment deferment for six months up to one year
- Fee waivers & streamlined application requirements
- There shall be no prepayment penalty for any unforgiven balance of a covered loan
- The covered loan shall have a maximum maturity of two years

# Business Eligibility

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- **Who is Eligible?**

- Small businesses with fewer than 500 employees or that otherwise meet the SBA's size standard
  - Businesses in certain industries can have 500+ employees if they meet acceptable SBA employee-based size standards for those industries. *Need to consider SBA affiliate rules when determining 500 employee threshold.*
- Eligible nonprofit organizations with fewer than 500 employees
- Eligible Veteran's organizations
- Tribal businesses as described in the Small Business Act
- Individuals who are self-employed who regularly carry on any trade or business
- Individuals who operate as an independent contractor or sole proprietor.

# How Much Can You Borrow?

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- Loans can be up to 2.5x the borrower's average monthly payroll costs in 2019, not to exceed \$10 million.
- **Non-Seasonal Employers:**
  - 2.5x average total monthly payroll costs incurred during the year prior to the loan date.
  - 2.5x average total monthly payroll costs incurred for January & February 2020 for businesses not operational in 2019.
- **Seasonal Employers:**
  - 2.5x average total monthly payments for payroll costs for the 12-week period beginning Feb. 15, 2019 or March 1, 2019 (decided by the loan recipient) and ending June 30, 2019.

# Included Payroll Costs for Employers

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- **The sum of payments of any compensation with respect to employees that is a:**
  - 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

# Included Payroll Costs for Sole Proprietors, Independent Contractors & Self-Employed Individuals

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- The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation & that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.





# When Can I Apply?

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- **April 3, 2020:** small businesses & sole proprietorships can apply for & receive loans to cover their payroll & other certain expenses through approved SBA lenders
- **April 10, 2020:** independent contractors & self-employed individuals can apply for & receive loans to cover their payroll & other certain expenses through approved SBA lenders
- **NOTE:** You must have your application submitted by June 30, 2020, however it is encouraged to get it in sooner as there is a funding gap & lenders need time to process your loan.

# Excluded Payroll Costs

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- × Compensation of an individual employee in excess of an annual salary of \$100,000.
- × 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 or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act (Public Law 116–5 127).

# Allowable Uses of Loan

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- **Loan recipients can use the loan proceeds for:**
  - Included payroll costs described earlier
  - Payments of interest on any mortgage obligation (excluding principal & prepayment of principal)
  - Rent (including rent under a lease agreement)
  - Utilities
  - Interest on any other debt obligations that were incurred prior to Feb. 15, 2020

# How Do I Find an SBA Approved Lender?

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- Contact the bank you have an existing relationship with first to see if they are an SBA lender
- Visit [www.sba.gov](http://www.sba.gov) for a list of SBA lenders
- Other regulated lenders will be available to make these loans as soon as they are approved & enrolled in the program



U.S. Small Business  
Administration

# What are Lenders Looking For?

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- Businesses must have been operating before Feb. 15, 2020 with employees who they paid salaries & payroll taxes
- **Good faith certifications:**
  - Principally that current economic conditions necessitate support for ongoing business operations & that the funds will be used to maintain payroll & address other covered expenses.
  - Borrower does not have an application pending for a loan duplicative of the purpose & amounts applied for here.
  - Borrower has not received a loan duplicative of the purpose & amounts during the period Feb. 15, 2020 through Dec. 31, 2020.

# What are Lenders Looking For? *(cont'd.)*

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- If you are an independent contractor, sole proprietor, or self-employed individual, lenders will also be looking for certain documents such as:
  - Payroll tax filings,
  - Forms 1099-MISC, and
  - Income and expenses from the sole proprietorship.



# Will the Loan be Forgiven?

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- If you maintain your workforce, SBA will forgive the portion of the loan proceeds spent on the following during the first 8-week period beginning on the date of origination of the loan:
  - Payroll costs (using the same definition of included payroll costs used to determine loan eligibility)
  - Interest on the mortgage obligation incurred in the ordinary course of business
  - Rent on a leasing agreement
  - Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
  - For borrowers with tipped employees, additional wages paid to those employees

# Will the Loan be Forgiven? *(cont'd.)*

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- It is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs (at least 75% must be used towards payroll)
- Amount of loan forgiveness is reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees
- Reductions in employment or wages that occur during the period beginning on Feb. 15, 2020 & ending 30 days after enactment of the CARES Act, shall not reduce the amount of loan forgiveness **IF** by June 30, 2020, the borrower eliminates the reduction in employees or wages



# Tax Treatment of Forgivable Portion of Loan Proceeds

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- The forgivable loan amounts shall not be includable in the gross income of the borrower by virtue of the forgiveness under this law.



# Forgiveness Application Process

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- **After the money is spent during the eight-week period beginning with loan origination, the lender shall have 60 days to grant or deny a forgiveness application, which is the borrower's submission of documentation:**
  - Verifying the number of FTE on payroll & pay rates for the eight-week period commencing on the loan origination date, including payroll tax filings reported to the IRS & state income, payroll & unemployment insurance filings.
  - Including cancelled checks, payment receipts, transcripts of accounts, or other documentation verifying payments on covered mortgage obligations, covered lease obligations & covered utility payments.

# Forgiveness Application Process *(cont'd.)*

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- **A certification of a representative of the borrower that states:**
  - Documentation is true & correct
  - Amount for which forgiveness is requested was used to retain employees, make interest payments on a covered mortgage obligation, payments on a covered rent obligation, or covered utility payments.
- **Any other documentation the SBA Administrator determines is necessary.**

# How We Can Help

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- Loan application preparation
- Loan application review
- Cash flow projection to determine funding gaps
- Review cash flow projections prepared by management
- Grant management including weekly reporting to management
- Loan forgiveness application preparation
- Loan forgiveness application review
- General advisory services in connection with disaster planning and management

# Questions?



# Contact Us

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