



SBA Paycheck Protection Program (PPP) Economic Aid Act Updates

Presented to



January 13, 2021

Introduction

- IFS was founded in 2009 and is owned by Michael Ryan.
- IFS is a Bank Consulting & Business Advisory Firm located in suburban Philadelphia specializing in SBA and USDA Loan Guaranty Programs.
- Have assisted our client lenders in approving over \$350,000,000 in SBA 7(a) loans.
- Service more than \$150,000,000 of SBA Loans.
- Worked with over 23 client lenders to establish PPP program and process over 13,000 loans totaling greater than \$1.7B.
- Contractual relationships with 38 community banks. Relationships with an additional 50 lenders.
- Clients in over 10 states.

Agenda

- Economic Aid Act Overview
- PPP Policy
- First Draw PPP Loans
- Second Draw PPP Loans
- First Draw PPP Loan Increases
- Eligibility
- Loan Terms
- Loan Amount Calculations
- Application Documentation and Processing
- Lender Responsibilities
- Lender and Agent Fees
- Forgiveness

Economic Aid Act

- Signed into law on December 27, 2020.
- Added the PPP Second Draw Loan Program through March 31, 2020.
- Reauthorizes the standard PPP (now known as First Draw PPP Loan) through March 31, 2020.
- Enables PPP Borrowers to request increases to existing loans based on miscalculations or procedural errors through March 31, 2020.
- Modifies PPP Loan Forgiveness policy and process.
- Temporarily modifies Standard 7(a), 504 and Express programs.

PPP Policy Overview

- Consolidated First Draw IFR – dated January 6, 2020
 - Consolidates and restates all previous guidance released and incorporates changes enacted by the Economic Aid Act.
- Second Draw PPP IFR – dated January 6, 2020
 - Identifies policy specific to Second Draw PPP Loans.
 - Where silent, Consolidated First Draw IFR rules apply.
- FAQs posted to the Treasury website will be updated.
Consolidated First Draw IFR and Second Draw IFR prevail if conflict.

PPP First Draw Loan

- Borrowers that have not previously received a PPP loan may apply for a First Draw PPP loan.
- \$10,000,000 Maximum loan amount per borrower (\$20,000,000 limit per corporate group).
- Size standard
 - 500 employees (Borrower and affiliates combined)
 - 500 employees per location for NAICS code 72, 511110, or 5151
 - 300 employees Housing cooperatives, section 501(c)(6) organizations, and destination marketing organizations
 - SBA NAICS size standard may be used if employee count not met
 - SBA Alternate Size Standard may be used for the Borrower combined with its affiliates (Average Net Income - \$5,000,00 or less/ Tangible Net Worth - \$15,000,000 or less)
- EIDL Loans made between January 31, 2020 and Ending April 3 , 2020 may be refinanced.

PPP Second Draw Loan

- Borrowers may apply for a second PPP loan.
- \$2,000,000 Maximum loan amount per borrower (\$4,000,000 limit per corporate group).
- 25% Quarterly or Annual Gross Receipts reduction – 2020 vs 2019
 - New businesses established on or before 2/15/2020 compare Q2, Q3, or Q4 to Q1 2020.
 - Businesses that did not operate in Q1 or Q2 2019 compare any quarter in 2020 to Q3 or Q4 2019.
 - Loans \$150,000 or less may provide substantiation at time of Forgiveness
- Size standard
 - 300 employees (Borrower and affiliates combined).
 - 300 employees per location for NAICS code 72, 511110, or 5151.
 - It does not appear the SBA NAICS or Alternate Size Standard options are applicable.
- If Second Draw application is submitted to same Lender that processed First Draw, Lender may proceed processing without documentation.

Two PPP Loans to One Borrower

- Is it possible for a PPP Borrower to obtain a First Draw and Second Draw PPP Loan before March 31st?
 - Borrowers must certify that funds from the First Draw loan will be fully spent toward eligible expenses prior to receiving a Second Draw loan.
 - A covered period may be chosen for any number of weeks from 8 to 24 weeks (for each loan respectively).
 - Borrowers that close a new First Draw loan by January 30 and choose an 8-week covered period could receive a Second draw loan if funding appropriations are not exhausted prior to program expiration.

PPP First Draw Loan Increases

- Borrowers that returned all or part of a PPP loan may reapply or request an increase.
- Miscalculated PPP Loans
 - Partners that excluded partnership income from the loan amount.
 - Seasonal employers.
 - No other specific scenarios other than the above are listed.
- Loan increase requests must be submitted electronically to E-Tran prior to March 31, 2021.
- Mechanics are not fully clear (i.e. can increases be requested if loan forgiveness has been completed). SBA will issue additional guidance.

Key Dates

- **When can Borrowers submit applications?**
 - January 11, 2020 – CDFI, CDC, Micro Loan
 - January ? – Other financial institutions
 - January 19, 2020 IFS Vikar Portal Open date

Participating Lenders

- Delegated authority automatic to SBA approved Lenders.
- Federally insured Lenders (Banks and Credit Unions), Farm Credit System institutions eligible to participate.
- Other regulated Lenders.
- Non SBA approved Lenders must make an application to delegatedauthority@sba.gov.
 - Submit SBA Form 3506
- Lenders in troubled condition or under enforcement action are not eligible to participate.

Eligible Businesses

- Must be in business as of February 15, 2020 and must have paid salaries and payroll tax or generated self employment income on or prior to February 15, 2020.
- Most business and non-profit types are eligible.
- New eligible entity types:
 - Housing Cooperatives, Eligible section 501 (c) (6) organization, eligible destination marketing organization.
 - News organization that is majority owned or controlled by a NAICS code 511110 or 5151.
 - Businesses that receive legal gaming revenues.

Ineligible Businesses

- Engaged in activity that is illegal under federal, state, or local law [i.e. marijuana businesses].
- Household employers (individuals that employ nannies or housekeepers).
- Owner 20% or more is incarcerated, on probation, parole, subject to indictment, or convicted of felony in last 5 years.
- Direct or guaranteed loans from SBA or any Fed Agency that is delinquent or defaulted within last 7 years and caused loss to government.
- Businesses that receive Shuttered Venue Operator grants.
- Public companies, Hedge funds, and private equity firms.
- Businesses that have closed permanently or are in bankruptcy.
- All other ineligible business types, unless otherwise permitted by PPP rule, are remain ineligible per SBA policy(Businesses engaged in Lending, Passive Businesses, Speculative Businesses, Life Insurance, among others – See SOP 50 10 6).

PPP Loan Terms

- All PPP First and Second Draw Loan terms are the same.
 - **Guarantee percentage** – 100%
 - **Term** – 5 years, fully amortizing after deferment period.
 - **Deferment period** – First payment due the following month after forgiveness is paid or, if a forgiveness application has not been submitted, 10 months from the end of the covered period.
 - **Interest Rate** – 1%
 - **No collateral**
 - **No personal guarantees**

PPP Loan Amount Calculation Overview

- **Loan amount calculation – maximum amount (lesser of)**
 - \$10,000,000 (First Draw Loan) or \$2,000,000 (Second Draw Loan); or
 - Average monthly Eligible Payroll Costs for the past 12 months x **2.5 (or 3.5 if NAICS Code begins with 72)**
+
 - SBA EIDL Loan closed between 1/31/2020 and 4/3/2020 (First Draw Loans only)

PPP Loan Amount Calculation - Average Monthly Payroll Costs

- **Determine basis for average Self Employment Income (if applicable):**
 - Either 2019 or 2020 evidenced by the filed 2019 Tax Forms or 2020 Draft Tax Forms.
- **Determine Self Employment Income:**
 - Farmer or Ranchers
 - Gross Income from Schedule F Line 9 (If it has employees subtract employee wages from Gross Income) - Not to exceed \$100,000 per year.
 - Self Employed Individuals, Independent Contractors,
 - Net Income from Schedule C Line 31 – Not to exceed \$100,000 per year.
 - Partnerships
 - Schedule K-1 Line 14a reduced by section 179 expense, unreimbursed partnership expense, and depletion, multiplied by 0.9235 – Not to exceed \$100,000 per year per partner.
 - Note: Owner compensation for Corporations filing 1120 or 1120S is treated the same as Employee Wages.
- **Divide Self Employment Income by 12**

PPP Loan Amount Calculation - Average Monthly Payroll Costs

- **Determine basis for average Employee related payroll costs:**
 - Seasonal Employers:
 - any 12-week (3 month) period between 2/15/2019 and 2/15/2020.
 - New Employers in operation on 2/15/2020, but did not exist during preceding 1-year period:
 - Number of months in operation through date of application. **[This requires additional clarification from the SBA].**
 - Non-Seasonal Employers in operation 12 months or greater:
 - 2019, 2020, or Trailing 12-month period from the date of application.
- ***If the applicant also has Self Employment income, the applicant must use the same year for Self Employment income and Employee payroll costs. [This requires additional clarification from the SBA. Conflicting language in IFRs]***

PPP Loan Amount Calculation - Average Monthly Payroll Costs

- **Determine composition of Employee related payroll costs during the period selected:**
 - Owner W-2 wages (entities filing 1120 or 1120S) and compensation to employees in the form of salary, wages, commissions, tips, bonuses, paid leave (medical, vacation or other).
 - Include employees that reside in the United States only and subtract payroll to any individual employee that exceeds \$100,000 on an annualized basis.
 - Exclude Federal Taxes imposed and qualified sick and family leave wages covered by Family First Coronavirus Response Act credits.
 - Employer contributions to employee group health, life, disability, vision and dental insurance.
 - Employer retirement contributions.
 - Employer paid state and local taxes.
- **Divide the sum of Employee related payroll costs by the number of months for the period chosen (i.e. 12 months, 3 months, or other if new entity)**

PPP Loan Amount Calculation - Average Monthly Payroll Costs

“Average Monthly Payroll Costs” = the Sum of:

- Average Monthly Self Employment Income and;
- Average Monthly eligible Employee related payroll costs

PPP Allowable Uses of Loan Proceeds

- Payroll costs (must continue to represent at least 60% of the forgiveness amount.)
 - Self employment income, salaries, commissions, wages, bonuses, tips etc.
 - Group insurance benefits (health, life, dental, vision).
 - Retirement benefits.
- Interest on mortgages and other debt originated before 2/15/20.
- Rent – (real estate, vehicles, equipment).
- Utilities.
- Covered Operating Expenses:
 - Broad range of Software or cloud computing services used to support sales, accounting, HR, and product or service delivery,.
- Covered property damage caused by 2020 public disturbances not paid by insurance.
- Covered supplier costs (payments to essential suppliers).
- Covered worker protection expenses (PPE, costs to accommodate social distancing guidelines).

PPP Application Requirements

- Borrower SBA Application Form 2483 (First Draw) or 2483-SD (Second Draw).
- Lender SBA Application Form 2484 (First Draw) or 2483-SD (Second Draw).
- Documentation supporting payroll costs:
 - Schedule C (Sole Proprietors), Schedule F (Farmers or Ranchers), or Schedule K-1 (Partnerships) for 2019 or 2020.
 - Payroll report from recognized payroll processor identifying total payroll costs used to determine monthly payroll costs; or IRS Form 941 and State Quarterly Unemployment returns for each quarter during the period used to determine payroll costs.
 - Evidence of employee group, health, life, disability, vision and dental insurance.
 - Evidence of retirement contributions.
- Second Draw Loans Only - Documentation supporting 25% Gross Receipts reduction (can be provided at forgiveness for loans \$150,000 or less).
- Verification that borrower had employees or was self-employed as of 2/15/2020.
- Front and back copy of driver's license.
- Borrower organizational docs.

PPP Application Processing

- **New Applications will be submitted through the same portal utilized for forgiveness (forgiveness.sba.gov)**
 - Information can be uploaded manually or through an API connection. E-Tran will not be utilized.
 - More modern and user friendly than E-Tran.

SBA U.S. Small Business Administration Forgiveness **Origination**

Resources
Origination Dashboard
PPP Loan Lookup
Submit New PPP Loan Request
All Loan Requests
Loan Request Drafts
Institution Settings

PPP Loan Request

Unless otherwise stated, all fields are required.

⚠ This form does not autosave. If you are not ready to submit this form, ensure you *Save a Draft* before navigating away.

Borrower Information

Business Information

Business Type	Business TIN (select TIN type)	Date of Establishment
-----	000000000 EIN	mm/dd/yyyy
Without Spaces or Hyphens		
DBA or Trade Name (if applicable)	NAICS Code	

PPP Application Processing

➤ Unresolved Issues with First Draw PPP Loan

- “If a First Draw PPP Loan is under review pursuant to PPP rules and/or information in SBA’s possession indicates that the borrower may have been ineligible for the First Draw PPP Loan it received or for the loan amount received by the borrower, the lender will receive notification from SBA when the lender submits an application for guaranty of a Second Draw PPP Loan (“unresolved borrower”). “
- **SBA claims they will expeditiously work with Lender to resolve these types of issues.**

PPP Lender Application Requirements

➤ Underwriting

- Confirm receipt of borrower certifications.
- Confirm receipt of documentation supporting payroll costs and self employment.
- Confirm dollar amount of average monthly payroll costs.
- Complete the Lender's 2484 Form.
- Follow applicable BSA requirements.

➤ Application processing

- Register to the SBA forgiveness.sba.gov portal and create user accounts. Lenders currently using the system for forgiveness may use their existing logins. (Refer to SBA Forgiveness User Guide).

➤ Register for SAM.gov (unique identifier to be provided to SBA within 30 days of first disbursement)

- Go to Sam.gov. [Registering on SAM.pdf \(sba.gov\)](#) On the top right-hand corner click "Login. This will bring you to Login.gov. Create a new user account.
- After the new user account is created, within the tab labeled MY SAM go to "Entity Registration" and click "Register New Entity".
- Start Registration and follow the prompts and provide information as necessary to complete the process.

PPP Lender and Agent Fees

➤ Lender Fees paid by SBA to Lender

- 50% of Loan Amount or \$2,500, whichever is less - \$50,000 or less
- 5% - \$50,000 - \$350,000
- 3% - \$350,000 - \$2,000,000
- 1% - \$2,000,000 or greater (First Draw loans only)

➤ Agents Fees paid by Lender

- Lender is not obligated to pay for services retained by Borrower.
- Brokers, Packagers, Lender Service Providers, Attorney, Accountant, Consultants.
- 1% - \$350,000 or less
- 0.5% - \$350,000 - \$2,000,000
- 0.25% - \$2,000,000 or greater (First Draw loans only)

PPP Loan Forgiveness

- Simplified one page application for loans \$150,000 or less with no documentation support required (Due January 20, 2021)
- IRS ruling on deductibility of expenses paid with loan proceeds is repealed.
- Deduction of EIDL Advance from forgiveness amount repealed (SBA will reimburse P&I, if applicable).
- New allowable expenses:
 - Covered Operating Expenses:
 - Broad range of Software or cloud computing services used to support sales, accounting, HR, and product or service delivery.
 - Covered property damage caused by 2020 public disturbances not paid by insurance.
 - Covered supplier costs (payments to essential suppliers).
 - Covered worker protection expenses (PPE, costs to accommodate social distancing guidelines).

SBA – Paycheck Protection Program

Questions?

Contact Information

Michael D. Ryan, President & CEO

Office: (484) 485-2756

Cell: (610) 733-9955

E Mail: mryan@InnovFS.net

Joe Herbst, SVP Business Development

Cell: (484) 432-3332

E Mail: jherbst@InnovFS.net

Website: InnovativeFinancingSolutions.net