



PAYCHECK PROTECTION PROGRAM FOR NONPROFITS

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Paycheck Protection Program

Overview

- \$377 billion small business and non-profit loan plan.
- Many underwriting requirements waived. Loan forgiveness is possible.
- Can submit applications on location by location basis starting April 3, 2020.
- Covered loan period: February 15, 2020-June 30, 2020.
- No personal guarantees or collateral required.



Eligible Borrowers

- Section 501(c)(3) nonprofits, 501(c)(19) veterans' organizations, or Tribal business concerns - eligible if 500 employees or fewer. Borrowers who have already applied for COVID-19 support under section 7(a) may not apply for these loans.



Eligibility:

- In general, 500 employees or less (unless eligible for higher cut-off based on NAICS code). SBA regulations provide NAICS code.
- Loan size: Up to \$10million based on formula.
- Permitted Uses: payroll support, insurance, rent, mortgage, utilities.
- Good faith self-certification is required.
- Covered period: very important because have to have obligations in place prior to start of period (February 15, 2020). Cannot incur new obligations to pay with loan.



Loan Amounts

- **Loan size:** Size of loan granted under this Act to each entity to be determined based on a formula related to entity's payroll costs. 2.5 times the average monthly payments for payroll cost incurred in the prior year before loan is made.
- Payroll includes salaries, wages, commissions, severance payments, payments for group health benefits, retirement benefits and state and local payroll taxes up to \$100,000.



Use of Funds

- Permitted uses of funds: Allowable uses of PPP loans include: payroll support (employee salaries and paid sick or medical leave), insurance premiums, and mortgage, rent, and utility payments. Borrower must make good faith certification that loan is necessary due to uncertain economic conditions caused by COVID-19; that the entity will use the funds to retain workers and maintain payroll, lease, and utility payments; and that the entity is not receiving duplicative funds from another SBA program.



Loan forgiveness

- Borrowers eligible for loan forgiveness equal to the amount spent over an 8- Week period from origination on payroll costs; interest payments on any mortgage prior to February 15, 2020; rent payments on any leases in force prior to February 15, 2020; payment of any utility in service prior to February 15, 2020.



Limits

- Amounts forgiven may not exceed the principal amount of the loan.
- Not included in taxable income



What if it's not forgiven?

- Any loan amounts not forgiven at the end of one year is carried forward as an ongoing loan with terms of a max of 10 years, at max 4 percent Interest. The 100 percent loan guarantee of the federal government will remain for these loans through to their term.



Reductions in Force

- The forgiveness amounts will be reduced for any employee cuts or reductions in wages. The reduction formula for fewer employees is: (1) the maximum available forgiveness under the rules described above multiplied by (2) the average number of fulltime equivalent employees (FTEEs) per month calculated by the average number of FTEEs for each pay period following within a month during the covered period divided by either (at the election of the borrower) (1) the average number of FTEEs per month employed from February 15, 2019 to June 30, 2019 or the average number for FTEEs per month employed from January 1, 2020 until February 29, 2020 or:



Reductions in Force

- maximum available forgiveness X $\frac{\text{Average number of FTEEs during the covered period}}{\text{Average number of FTEEs 2/15/2019 – 6/30/2019 or 1/1/2020-2/29/2020}}$
- For reductions in wages, the forgiveness reduction is a straight reduction by the amount of any reduction in total salaries or wages during the covered period that is in excess of 25% of the employee's salary/wages during the employee's most recent quarter of employment before the covered period. Employee is limited to any employee who did not receive during any pay period during 2019 a salary or wage at an annualized rate of pay in excess of \$100,000.
- This means the forgiveness will be reduced if the employer (A) reduces its workforce during the eight-week period after the loan or (B) reduces the salaries or wages paid to an employee by more than 25% during the eight-week period (compared to the most recent quarter)



Reductions in Force

- However, there is relief for forgiveness reduction for employers who rehire employees or reverse salary reductions by June 30, 2020. Specifically, the forgiveness reduction rules will not apply to any employer between February 15, 2020 and 30 days after the enactment of the CARES Act if the employer reduces the number of FTEEs during this period and, not later than June 30, 2020, the employer has eliminated the reduction of FTEEs or salary reduction, as compared to February 15, 2020 during the period for one or more employees and a reduction is eliminated by June 30, 2020.



Tip Payments

- The CARES Act clarifies that employers with tip employees may also receive forgiveness for additional wages paid to those employees.



The Administrator

- Within 90 days of determining the ultimate forgiveness amount, the SBA Administrator must remit payment plus interest accrued from the date of payment to the lender. Authorized lenders and secondary market participants must report the expected forgiveness amounts, up to 100% of the principal.



Documentation

- Borrowers seeking forgiveness must submit to their lender the following documents:
(1) documentation verifying FTEEs on payroll and their pay rates; (2) documentation on covered costs and payments (for mortgage, rent and utilities); (3) certification from a business representative that documentation is true and correct and the forgiveness amount requested were used to retain employees or make other forgiveness eligible payments; and (4) any other documentation the SBA Administrator may require.



Compensation for Lenders

- The CARES Act also waives certain fees that would otherwise apply to SBA Loans. Participating lenders are compensated based on the loan balance at the time of disbursement equal to 5% for loans at \$350,000 or less; 3% for loans above \$350,000 and less than \$2 million and 1% for loans of \$2 Million or more.



Where to Apply for Loans

- Loans to be immediately available through existing SBA-certified lenders, including banks, credit unions, and other financial institutions, and SBA would be required to streamline the process to bring additional lenders into the program.
- Sample loan application at <https://www.sba.gov/document/sba-form--paycheck-protection-program-ppp-sample-application-form>



Who to Contact

- Your existing bank or lender
- Your Board Members
- Scott Parker
Endeavor Bank
sparker@bankendeavor.com
(760) 795-1176
- CDC Small Business Finance in Liberty Station
<https://cdcloans.com/>



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