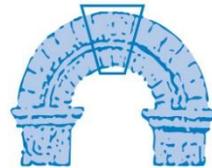

Paycheck Protection Program (PPP): Loan Forgiveness Provisions

Inclusive of guidance released by the SBA on May 22, 2020

June 2nd, 2020



THE KEYSTONE GROUP

Atlanta ♦ Chicago

The information provided in this document does not, and is not intended to, constitute legal advice; instead, all information, content, and material are for general informational purposes only. This information is subject to change as processes and procedures are developed in accordance with this new law.



Agenda

1	Overview of PPP
2	Authorized Uses and Eligible Costs
3	Loan Forgiveness Overview
4	How to Calculate Forgiveness Amount
5	Applying for Loan Forgiveness
6	Potential Changes in Legislation



Overview of Paycheck Protection Program

Support for Small Businesses

The Paycheck Protection Program (PPP) is designed to provide loans to small businesses to keep their workforce employed during the COVID-19 crisis.

- Eligible businesses may apply for a loan through an SBA-approved lender
 - Small-businesses may borrow up to 2.5 months worth of payroll expenses
 - Loans need to be provided from February 15 to June 30, 2020
- Loan Forgiveness Eligibility and Loan Terms
 - The SBA will forgive up to 8-weeks of eligible expenses
 - At least 75% of the loan amount must be used for payroll costs
 - Any remaining balance has a 2-year maturity and a 1% interest rate
 - Loan payments will be deferred for 6 months
 - No collateral or personal guarantees are required
 - Neither the government nor lenders will charge small businesses any fees



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Authorized Uses and Eligible Costs

Payroll

Companies must use at least 75% of their PPP funds for eligible payroll costs during the 8-week Covered Period* as outlined below.

- Wages, salaries, and commissions (no more than \$100,000 per employee)
 - Pro-rated at a maximum of \$15,385 per employee for the 8-week period
- Benefits including group healthcare costs and paid sick leave
- Taxes on compensation

What's included in "Payroll Costs"	What's not included
<ul style="list-style-type: none">• Salaries, wages, commissions, or similar compensation• Cash tips• Payments for time off• Separation allowances• Group healthcare expenses including premiums• Retirement benefits• State or local taxes• Contractor salary payments	<ul style="list-style-type: none">• Wages over \$100,000• Taxes imposed or withheld under FICA, RRTA, and ITW• Salaries for employees who live outside the US• Leave payments for employees as provided by the second COVID-19 law passed earlier this year

*Payroll costs **only** can be calculated using either the "Covered Period" or the "Alternative Covered Period" as defined in the PPP Loan Forgiveness Application (further explained later).

The 75% requirement is applied to both loan forgiveness as well as general allowed use of the funds.



Authorized Uses and Eligible Costs

Mortgage Interest, Rent, and Utilities

Companies may use up to 25% of their PPP loan funds to cover mortgage interest, rent, and utilities during the Covered Period as outlined below.

- Mortgage interest payments on real or personal property
 - Includes the payment of interest (not including any prepayment or payment of principal) on business mortgages as well as loans on equipment, vehicles, etc.
- Rent or lease payments on real or personal property
 - Includes the lease of buildings or office space as well as equipment, vehicles, etc.
- Covered utility payments
 - Specifically includes electricity, gas, water, transportation*, telephone, and internet access

*Transportation is not clearly defined but is widely believed to include the cost of gas and other costs that would typically be included as deductions on the business-tax return

Eligible loans, leases, or utility services need to have originated prior to February 15, 2020 to qualify.



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Loan Forgiveness Overview

Loan Forgiveness Formula

The U.S. Small Business Administration (SBA) will forgive up to 100% of the loan amount by using the following formula:

$$\begin{array}{|c|} \hline \text{Forgiveness} \\ \text{Amount} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Eligible Payroll Costs} \\ + \\ \text{Eligible Other Costs} \\ - \\ \text{Salary / Wage Reductions} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Full-Time Equivalent} \\ \text{(FTE) Reduction} \\ \text{Quotient} \\ \hline \end{array}$$

Of note, at least 75% of the Forgiveness Amount must have been used for payroll. Otherwise the max forgiveness = Eligible Payroll Costs divided by 0.75.



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How to Calculate Forgiveness Amount

Order of Operations

Calculating the Forgiveness Amount can be simplified into a three-step approach:

1) Calculate total eligible payroll and other costs during the 8-weeks (56 days)

2) Adjust “Modified Total” for salary / wage reductions and full-time equivalent (FTE)

3) Test the 75% payroll cost requirement



How to Calculate Forgiveness Amount

Order of Operations

Calculating the Forgiveness Amount can be simplified into a three-step approach:

1) Calculate total eligible payroll and other costs during the 8-weeks (56 days)

- Payroll costs during the “Covered Period” or the “Alternate Covered Period” plus,
- Mortgage interest, rent, and utility costs during the “Covered Period” only

2) Adjust “Modified Total” for salary / wage reductions and full-time equivalent (FTE)

- Forgiveness Amount is reduced if:
 - Wages / hours have been decreased by more than 25% and are not restored by June 30th
 - The employer (Borrower) does not bring back the same number of FTE employees

3) Test the 75% payroll cost requirement

- The Total Forgiveness Amount is the lesser of:
 - The “Modified Total” (total eligible costs less the adjustments from step 2)
 - The total PPP loan amount
 - Payroll Cost 75% Requirement (total eligible payroll costs divided by .75)



How to Calculate Forgiveness Amount

Cost Eligibility for Forgiveness

1) Calculate total eligible payroll and other costs during the 8-week (56 days)
2) Calculate total eligible payroll and other costs during the 8-week (56 days)
3) Calculate total eligible payroll and other costs during the 8-week (56 days)

Borrowers are eligible for forgiveness up to the sum of eligible costs during the 8-week Covered Period.

- The 8-week (56 day) “Covered Period” begins the day the loan is funded by your Lender
 - If the loan was disbursed in multiple payments, the date of the first disbursement would typically mark the first day of the Covered Period
- For payroll calculations only, an “Alternate Covered Period” may be used if the company (Borrower) utilizes a bi-weekly or more frequent pay period
 - If this criteria is met, the company may choose to use the first day of the first pay period following the date the loan was funded as the start date.
 - The Alternate Covered Period would include the sequential 8 weeks (56 days).
 - This allows borrowers to align their Covered Period with their payroll period.
 - Note: The Alternate Covered Period can only be used for calculating payroll costs, and all other eligible costs should be calculated using the Covered Period.

Eligible costs include expenses paid *or* incurred in the applicable period, but no expense may be double-counted.



How to Calculate Forgiveness Amount

Covered Period

1) Calculate total eligible payroll and other costs during the 8 weeks (56 days)
2) Subtract the amount of any payments made during the 8 weeks (56 days)
3) The result is the amount of loan forgiveness

Below is an example of an 8-week Covered Period during which eligible costs may be counted towards loan forgiveness:

APRIL 2020							MAY 2020							JUNE 2020						
Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4						1	2							
5	6	7	8	9	10	11	3	4	5	6	7	8	9	7	8	9	10	11	12	13
12	★	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20
19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27
26	27	28	29	30			24	25	26	27	28	29	30	28	29	30				
							31													

Legend:

- ★ - Loan Origination Date (date of first disbursement from lender)
- - Covered Period

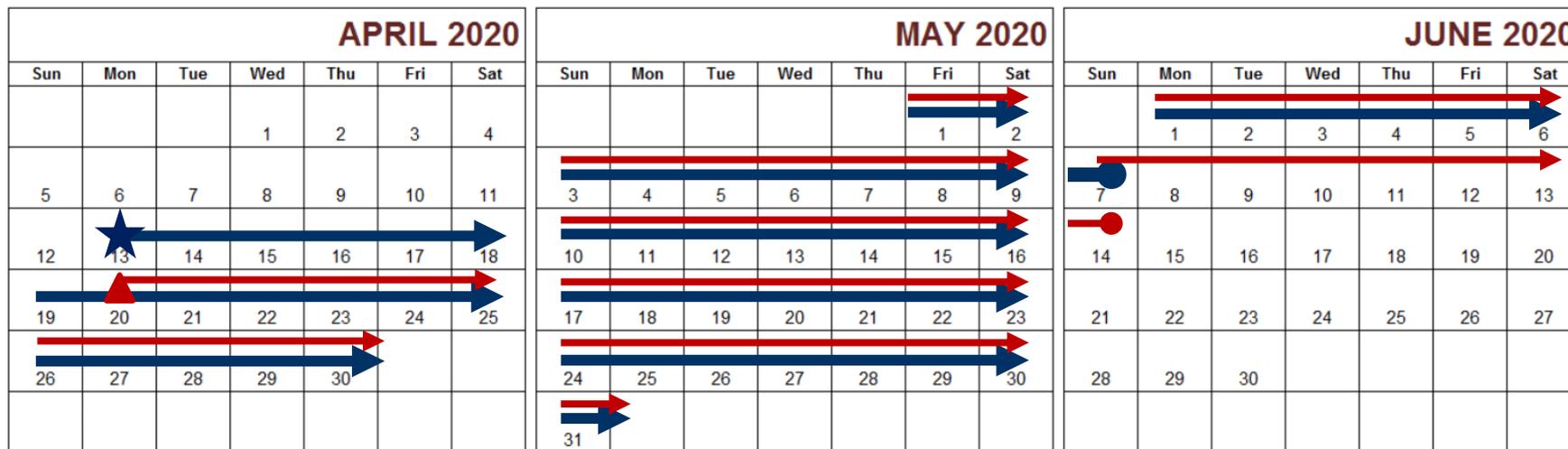


How to Calculate Forgiveness Amount

Covered Period

1) Calculate total eligible payroll and other costs during the 6 weeks (90 days)
2) Calculate the amount of the loan that is forgiven
3) Subtract the amount of the loan that is forgiven from the total eligible payroll and other costs during the 6 weeks (90 days)

Here is an example of a borrower that chooses to use an Alternate Covered Period for payroll costs, alongside the required Covered Period for other costs:



Legend:

- ★ - Loan Origination Date (date of first disbursement from lender)
- - Covered Period
- ▲ - First Day of First Pay Period Following Loan Origination Date
- - Alternate Covered Period



How to Calculate Forgiveness Amount

Adjustment for Salary / Hourly Wage Reductions



If salaries or wages for any protected worker* have been reduced by more than 25%, the Borrower may need to make a reduction to their Forgiveness Amount.

- Safe harbor
 - Employees whose pay was reduced from February 15, 2020 to April 26, 2020 and is reinstated in full by no later than June 30, 2020 do not require a reduction
 - Important: restoration of wages must be to 100% of Feb 15, 2020 rate of pay to qualify
 - Note: An employee whose wages were reduced after April 26, 2020 will not qualify
- Calculating the reduction amount:
 - The reduction analysis must be completed individually for each employee
 - For each non-exempt employee (a) compare the average rate of pay during the Covered Period or Alternate Covered Period with his / her average rate of pay in Q1 2020, (b) determine the average weekly difference in pay above the 25% threshold, and (c) multiply by 8 to determine that employee's total reduction
 - A template for the calculation can be found on the [PPP Schedule A Worksheet](#)

*Employees are exempt (not classified as a protected worker) if they received, during any single pay period in 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000

According to the published guidelines, the Salary / Hourly Wage Reduction adjustment must be applied before the FTE reduction.



Loan Forgiveness

Example: Adjustment for Salary / Hourly Wage Reductions

1) Enter each employee in a table line
2) Adjust "Modified Total" for salary / wage reductions and full-time equivalent (FTE)
3) If restored wages are greater than 2/15 wages, safe harbor also applies

Individually determine if safe harbor applies for each employee.

1) Enter each employee in a table line

2) If wage reduction (column 3 divided by column 2) is less than 25% then safe harbor applies, and/or

Employee Identifier	Annual Salary or Hourly Wage Between 1/1/2020 and 3/31/2020	Average Annual Salary or Hourly Wage during Covered Period or Alternative Period	Annual Salary or Hourly Wage as of 2/15/2020	Annual Salary or Hourly Wage between 2/15/2020 and 4/26/2020	Annual Salary or Hourly Wage as of 6/30/2020	Average Number of Hours Worked / Week Between 1/1/2020 and 3/1/2020	75% Threshold (% retained wages)	Safe Harbor	Reduction Calculation
1	\$ 80,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	40	88%	YES	\$ -
2	\$ 90,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	30	44%	NO	\$ 4,231
3	\$ 15	\$ 10	\$ 10	\$ 10	\$ 10	40	67%	NO	\$ 400
4	\$ 12	\$ 10	\$ 10	\$ 10	\$ 10	20	83%	YES	\$ -
5	\$ 14	\$ 10	\$ 10	\$ 10	\$ 10	10	71%	NO	\$ 40
TOTAL									\$ 4,671

3) If restored wages (column 6) are greater than 2/15 wages (column 4), safe harbor also applies

Loan Forgiveness

Example: Adjustment for Salary / Hourly Wage Reductions

1) Annual Salary or Hourly Wage as of 2/15/2020
2) Adjust "Modified Total" for salary / wage reductions and full-time equivalent (FTL)
3) Average Annual Salary or Hourly Wage

The reduction amount for each non-exempt employee is the dollar amount of wage reductions greater than 25% over the 8-week period.

For each salaried worker, multiply Q1 salary (column 2) by .75 and subtract Covered Period wages (column 3). Divide this number by 52 and multiply by 8.

Employee Identifier	Annual Salary or Hourly Wage Between 1/1/2020 and 3/31/2020	Average Annual Salary or Hourly Wage during Covered Period or Alternative Period	Annual Salary or Hourly Wage as of 2/15/2020	Annual Salary or Hourly Wage between 2/15/2020 and 4/26/2020	Annual Salary or Hourly Wage as of 6/30/2020	Average Number of Hours Worked / Week Between 1/1/2020 and 3/1/2020	75% Threshold (% retained wages)	Safe Harbor	Reduction Calculation
1	\$ 80,000	\$ 70,000	\$ 70,000	\$ 70,000	\$ 70,000	40	88%	YES	\$ -
2	\$ 90,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	30	44%	NO	\$ 4,231
3	\$ 15	\$ 10	\$ 10	\$ 10	\$ 10	40	67%	NO	\$ 400
4	\$ 12	\$ 10	\$ 10	\$ 10	\$ 10	20	83%	YES	\$ -
5	\$ 14	\$ 10	\$ 10	\$ 10	\$ 10	10	71%	NO	\$ 40
TOTAL									\$ 4,671

Total for all employees will be the final reduction amount

For hourly workers, multiply Q1 wage (column 2) by .75 and subtract Covered Period wage (column 3). Multiply this number by avg. hours worked in Q1 (column 7) and then multiply again by 8.



How to Calculate Forgiveness Amount

Adjustment for FTE Reduction

1. How to Calculate Forgiveness Amount
2. Adjust "Modified Total" for salary / wage reductions and full-time equivalent (FTE)
3. How to Calculate Forgiveness Amount

The Forgiveness Amount will be further reduced in proportion to the total reduction in FTE employees when comparing pre- and post-pandemic staffing.

- The CARES Act states that “the amount of loan forgiveness shall be reduced proportionately by the average number of full-time equivalent employees per month during the Covered Period as compared to either (at the election of the borrower in most circumstances) February 15, 2019 through June 30, 2019 or January 1, 2020 through February 29, 2020.”
- Safe harbor
 - If the employer meets both of the following criteria, FTE Reductions do not apply:
 - (i) The company reduced its FTE in the period from Feb 15, 2020 to April 26, 2020 and,
 - (ii) restored the FTE headcount by June 30, 2020
 - Note: If headcount was reduced after April 26, 2020 then safe harbor will not apply



How to Calculate Forgiveness Amount

Adjustment for FTE Reduction

1) Actual "Modified Total" for salary / wage reductions and full-time equivalent (FTE)
2) Actual "Modified Total" for salary / wage reductions and full-time equivalent (FTE)
3) Actual "Modified Total" for salary / wage reductions and full-time equivalent (FTE)

The Forgiveness Amount will be further reduced in proportion to the total reduction in employees when comparing pre- and post-pandemic staffing...

- Calculating the average FTE during each time period:
 - For each employee, enter the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is 1.0.
 - A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.
 - Note: Exceptions are included for employees who were laid off and refuse to return to work, were terminated for cause, voluntarily resigned, or voluntarily requested a reduction in hours.
- The FTE Reduction Quotient
 - The FTE Reduction Quotient is determined by dividing the average FTE in the Covered Period or Alternate Covered Period by the average FTE headcount during the historical period selected by the borrower. This quotient, which cannot exceed 1.0, is then multiplied by the Forgiveness Amount (after Salary / Wage Reductions) to determine the Modified Total Forgiveness Amount.



How to Calculate Forgiveness Amount

Example: FTE Calculation



Below is an example of how a company (Borrower) would calculate FTE using either method:

Employee Identifier	Average Number of Hours Worked Per Week During Covered or Alternate Period	Calculated Average FTE	Simplified Average FTE
1	50	1.0	1.0
2	40	1.0	1.0
3	30	0.8	0.5
4	20	0.5	0.5
5	10	0.3	0.5
TOTAL		3.6	3.5

Enter each employee in a table

For each employee, divide the number of hours worked (column 2) by 40. Then, round to the nearest tenth and cap at 1.0

For employees with 40 hours or more, enter 1. For employees with less than 40 hours enter .5

Total for all employees

- The application requires a weekly calculation (instead of per payroll period)
- Either the calculated average or the simplified method may be used
 - An employer with majority part-time workers who work less than 20 hours per week may be better off using the simplified method



How to Calculate Forgiveness Amount

75% Payroll Cost Requirement



The final forgiveness amount is the lesser of (a) the modified total forgiveness amount, (b) the total PPP loan amount, or (c) the Payroll Cost Requirement...

(a) The Modified Total Forgiveness Amount = [(Eligible Costs - Salary and Wage Reductions) * the FTE Reduction Quotient]

$$\begin{array}{|c|} \hline \text{Forgiveness} \\ \text{Amount} \\ \hline \end{array} = \begin{array}{|c|} \hline \text{Eligible Payroll Costs} \\ + \\ \text{Eligible Other Costs} \\ - \\ \text{Salary / Wage Reductions} \\ \hline \end{array} \times \begin{array}{|c|} \hline \text{Full-Time Equivalent} \\ \text{(FTE) Reduction} \\ \text{Quotient} \\ \hline \end{array}$$

(b) Naturally, the final Forgiveness Amount may not be greater than 100% of the initial loan amount

(c) Last, the Forgiveness Amount must be at minimum 75% payroll costs. To check, divide your eligible payroll costs by .75. If the result is lower than your calculated forgiveness amount, then the lower amount is forgiven.



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Applying for Loan Forgiveness

Overview of PPP Loan Forgiveness Application

The Loan Forgiveness Application, which became available online on May 15th, includes 11-steps to accurately calculate the Forgiveness Amount.

- The application should be completed by the company (Borrower) and submitted to the SBA by the Lender according to the Lender's instructions.
- The application features four parts:
 - (1) PPP Loan Forgiveness Calculation Form
 - (2) PPP Schedule A – Summary Information for FTE and Wage / Salary Reductions
 - (3) PPP Schedule A Worksheet – FTE and Wage / Salary Reductions
 - (4) Optional PPP Borrower Demographic Information Form
- The application and its subsequent forms can be found [here](#).



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Potential Changes in Legislation

H.R. 7010 – Paycheck Protection Program Flexibility Act

Pending congressional legislation could loosen the PPP loan terms and favorably ease the requirements for Borrowers' forgiveness eligibility.

- Potential changes from the current version of H.R. 7010 include:
 - Extending loan maturity from 2 years to 5 years
 - Extending the Covered Period from 8 weeks to the earlier of 24 weeks from the origination date or December 31st, 2020
 - The 75/25 payroll cost test would be replaced with a 60/40 cliff requiring that 60% of funds are spent on payroll costs, otherwise no forgiveness will be given
 - Extending the re-hire exemption deadline for FTE safe harbor to December 31st
 - Adding an exemption from reduction in loan forgiveness if the business is, in good faith, able to document the inability to rehire its full workforce due to:
 - Inability to find qualified employees to hire, or
 - Inability to restore business to comparable level activity due to social distancing
 - Borrowers will be eligible for the deferral of the employers' portion of Social Security payroll taxes, regardless of whether the borrower receives forgiveness

However, the bill must still pass the Senate and be signed into law by the President before replacing the current rules. Track the bill's status [here](#).



Appendix

Sources

- [Text of the act](#)
- [Treasury Department's COVID-19 response page](#)
- [Small Business Association's PPP information page](#)
- [Paycheck Protection Program Loan Forgiveness Application](#)

