Paycheck Protection Program (PPP) Loan Q&A for Bankers

The following is a Q&A intended to provide bankers with general information about the PPP. This information is current as of March 31, 2020.

Who can get a loan?
Businesses, including self-employed and independent contractors, Nonprofits (501(c)(3)), veterans' organizations (501(c)(19)) and tribal business concerns, with fewer than 500 employees.

Who can make a loan?
All existing SBA-certified lenders will be given delegated authority to speedily process PPP loans. All federally insured depository institutions, federally insured credit unions, and Farm Credit System institutions are eligible to participate in this program. A broad set of additional lenders can begin making loans as soon as they are approved and enrolled in the program. New lenders will need to submit their application to DelegatedAuthority@sba.gov to apply with the SBA.

What is the maximum loan amount?
Loans can be for up to two months of the business's average monthly payroll costs from the last year plus an additional 25% of that amount. That amount is subject to a $10 million cap. If the business is seasonal or new, different applicable time periods will be used in the calculation. Payroll costs will be capped at $100,000 annualized for each employee.

How much is the interest rate?
The interest rate is fixed at 0.50%. All payments are deferred for 6 months; however, interest will continue to accrue over this period. Loan term is 2 years.

Who funds the loan?
The lender funds the loan. It may sell the loan to the secondary market and the SBA will not collect any fee for any guarantee sold to the secondary market. The loan will carry a 0% risk-weighting, thereby negating the impact on risk-based capital ratios if the bank holds the loan on its balance sheet (though liquidity and leverage ratios would be impacted by retaining the loan).

What documentation must be provided by the borrower?
The guidelines have not yet been fully published, but it is clear they will need to establish an average monthly payroll over the last twelve months. This information will need to be carefully detailed, including payments for insurance and retirement benefits, among other items. The borrower will also need to be able to separately identify compensation paid to individuals that exceeds $100,000. The remaining documentation required, if any, has not yet been established by the Administration. However, if your potential borrowers want to begin gathering documents now, in addition to payroll information, they should ensure that their financial records allow them to quickly identify payments made for payroll and benefits, rent, mortgage interest, and utilities. Prior tax returns may also be beneficial. Again, documenting payroll in

detail will be crucial. Finally, applicable Bank Secrecy Act requirements must also be followed.

What limitations typical of some SBA loans are waived for this program?
There is no requirement for collateral or personal guarantees. In addition, borrowers will not be required to show that they cannot obtain financing elsewhere.

How much will be forgiven?
The full loan amount will be forgiven as long as: 1) The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs (in existence as of 2/15/20) over the 8-week period after the loan is made; **and** 2) Employee and compensation levels are maintained. Payroll costs are capped at $100,000 on an annualized basis for each employee.

What is the process for loan forgiveness?
Borrowers are to submit a request to the lender that is servicing the loan. The request will include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. Borrowers must certify that the documents are true and that the borrower used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days. Details on what must be provided to SBA are not yet available.

How does the loan forgiveness work?
It is expected that the SBA submits payment to the lender as if a "normal" SBA loan had defaulted and the SBA were paying on its guarantee. The payment is made within 90 days of submission and acceptance of the documentation needed to establish forgiveness, during which time interest continues to accrue. Exact details are not yet available.

What about borrowers that have already laid off employees?
Those borrowers will be given credit for loan forgiveness under the program for costs related to rehired employees given the goal of keeping Americans employed during this time.

What if borrowers still need to lay off employees even after receipt of the funding?
Loan forgiveness will be reduced if borrowers decrease their full-time employee headcount. Loan forgiveness will also be reduced if the borrower decreases salaries and wages by more than 25% for any employee that made less than $100,000 annualized in 2019. Borrowers have until June 30, 2020 to restore the business to full-time employment and salary levels for any changes made between Feb. 15, 2020 and April 26, 2020.

Does a business have to be negatively impacted by the COVID-19 virus in order to get a loan?
The business will be required to attest that, among other things, the uncertainty related to the COVID-19 virus has made the loan request necessary to support the ongoing operations of the business. The specific certification required is extensive.

> **EXAMPLE:**
> A small business with fewer than 500 employees and an average monthly payroll of $150,000 over the last 12 months applies for a PPP loan with its bank. After attesting that the COVID- 19 virus has impacted its business operations and submitting other required documentation, the business receives a loan of $375,000. Over the next 8 weeks it is determined that the business has incurred $350,000 in eligible payroll, rent, and utilities expenses. The principal balance of the loan is reduced to $25,000 and amortized over a period of 2 years at an interest rate of 0.5%. The program prohibits SBA

from charging fees to the lender and the borrower.

How will lenders be compensated?
Lenders will receive a processing fee based on the balance of the financing outstanding at the time of final disbursement as follows: 5% for loans $350,000 and less; 3% for loans greater than $350,000 to $2 million; and 1% for loans greater than $2 million.

What risks should banks consider in implementing this program for their borrowers?
The normal guidelines for implementing a new government-guaranteed lending program apply, even though the administrative burdens of this program are intended to be greatly lessened. *Note:* While there is clearly an expectation that banks will generally facilitate this program, there is no requirement that all banks participate.

Banks should ask the following questions:

- Are my operations situated at this time in a manner that will allow me to process applications and fund loans with the expected speed and without undue risk?
- Can the bank quickly develop and implement appropriate internal procedures to originate, then service, these loans?
- From a health and safety standpoint, am I in a position to not only accept applications but also to provide guidance to borrowers on the process (i.e., do I have a call center or other virtual means to connect with borrowers)?
- Am I comfortable with the process for collecting a guarantee from the SBA?
- Because the program is established on an expedited basis, there is elevated fraud risk. Do I have safeguards in place to address those risks?