



PAYCHECK PROTECTION PROGRAM

APRIL 1, 2020

TITLE

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SUMMARY

- > **\$349 billion in authorized Section 7(a) SBA loans, to be issued directly by banks and 100% guaranteed by the SBA.**
- > **Businesses with fewer than 500 full or part time employees will be eligible, with higher employee limits for hotels, restaurants and other industries approved by SBA.**
- > **No personal guaranties or collateral.**
- > **Loan amounts will be 2.5 times avg. monthly payroll costs, up to a \$10m cap.**
- > **Interest capped at 4%, with deferred principal and interest payments (6 months).**
- > **Loan forgiveness in an amount equal to 8 weeks of payroll, mortgage, rent, and utility expenses, with the amount of forgiveness reduced if employee headcount or compensation is decreased.**

PROGRAM OVERVIEW

- > **The Paycheck Protection Program operates as a form of subsidy equal to 2.5 months of payroll costs for small business.**
- > **The Section 7(a) SBA loan program has been used as a framework for issuing loans in the Paycheck Protection Program, but many of the traditional limitations of a Section 7(a) loan have been done away with – for example, lenders will not be required to obtain SBA approval of a credit determination, borrowers will include many companies that would not typically be “small business concerns” eligible for a 7(a) loan, and there are no personal guaranty or collateral requirements. Lenders will be incentivized to issue loans; the SBA will reimburse processing costs at a rate between 2% and 5% of the principal amount of the loan, with the rate dependent on the size of the principal.**

ELIGIBLE BORROWERS

Eligible borrowers include:

- > All “business concerns” with fewer than 500 employees, who:
 - Actively conducted a trade or business on February 15, 2020, and
 - Incurred payroll costs or 1099 payment obligations on February 15, 2020.
- > NAICS Sector 72: Accommodation and Food Services businesses with more than 500 employees, if <500 employees work at a single location;
- > Independent contractors, self-employed persons or sole proprietorships;
- > 501(c) nonprofit organizations;
- > Veterans’ organizations or Tribal business concerns.

LOAN CERTIFICATION PROCESS

Under PPP, Borrowers do not need to make any special showing of economic necessity– and there is a waiver of the “no credit elsewhere” rules.

Borrowers must supply a written certification specifying:

- > The current economic situation necessitates the loan request for funds to support ongoing operations, which includes: retaining workers, maintaining payroll, and/or making mortgage payments, lease payments, utility payments**
- > The loan recipient does not have any duplicative outstanding loan or pending application**

ELIGIBLE LOAN AMOUNT, USE OF FUNDS, AND INTEREST

Maximum PPP Loan amount is 2.5 times the borrower's average monthly payroll amount (\$10M cap) over the 12 months prior to origination of the PPP Loan.

- > Payroll costs exclude compensation >\$100k to any single employee or independent contractor and any payments to persons that are not U.S. residents
- > Note: While loan eligibility is based solely on payroll costs, funds may be used to pay employee or contractor compensation (even in excess of \$100k), operating costs and for payments on indebtedness incurred prior to issuance

Maximum interest rate is 4%, with no SBA loan fees. Borrowers may defer payments for six-month period (commencing on origination date).

LOAN FORGIVENESS

- > Forgiven in an amount equal to operating costs for the 8-week-period (origination), up to the entire principal amount.

- > Reduced Forgiveness:
 - Reduced Employee Headcount: Forgiveness reduced at ratio of the borrower's average number of FT employees during 8-week-period (starting at disbursement) to the average number of FT employees during Feb 15, 2019 to June 30, 2019 (or Jan 1, 2020 to Feb 29, 2020).

 - Reduced Compensation: Forgiveness will be reduced on a dollar-for-dollar basis by reductions to compensation in excess of 25% for any employee earning less than \$100k annually.

- > Borrowers who reduced employee headcount or compensation can avoid forgiveness reduction by returning to Feb 15 levels by June 30, 2020.

LOAN FORGIVENESS (CONT.)

Borrower must provide the following documentation to obtain forgiveness:

- > Payroll tax filings**
- > State income, payroll and unemployment insurance filings**
- > Documentation verifying mortgage, rent, or utility payments**

The borrower must also certify that it used loan proceeds to pay payroll costs, rent, mortgage payments or utilities.

THANK YOU.

QUESTIONS?

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More information available here:

<https://www.winthrop.com/bold-perspectives/congress-poised-to-pass-massive-loan-program-for-small-businesses/>