



PPP Loan Forgiveness FAQ

Guidance for the Seattle Business Community

Disclaimer: The information in this document is current as of May 27, 2020; however, it is subject to change.

As the focus shifts from obtaining loans under the Paycheck Protection Program (PPP) to forgiveness, businesses have many questions.

From determining which expenses are eligible for forgiveness to identifying and exploring options beyond PPP, Seattle Bank is here to help you navigate this challenging period and move your business forward.



PPP Loan Forgiveness Qualification & Process

Q1: I want the maximum forgiveness possible. How should I use my PPP loan funds?

A1: First, use your PPP loan funds within the 8-week Covered Period beginning with the date your loan was funded. You don't have to use all of your funds within the 8-week period, but funds spent outside of this period will not be eligible for forgiveness.

It should be noted, the SBA has allowed borrowers to select an Alternative Covered Period for the purposes of determining eligible payroll expense (see the next question for more details).

Second, make sure you are using the funds on eligible expenses:

- 75% or more of your loan must be spent on eligible payroll costs, which include: Salary, wages, tips, paid leave, or commissions (not to exceed an annual salary of \$100,000 for any employee)
- Employee benefits, such as PTO, allowance for employee separation or dismissal, insurance premiums, taxes, and retirement

Up to 25% of your loan may be spent on other eligible nonpayroll costs, which include:

- Business mortgage interest payments on mortgages in effect before February 15, 2020
- Rent payments on leases dated prior to February 15, 2020
- Utility payments for electricity, gas, water, transportation, telephone, or internet with service agreements in place before February 15, 2020

Note: An eligible nonpayroll cost must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period.

Q2: How is the 8-week Covered Period determined?

A2: The 8-week (56-day) Covered Period begins the same day PPP funds were disbursed. For convenience, however, borrowers with a biweekly (or more frequent) payroll schedule may choose to begin on the first day of their first pay period after their PPP loan was funded (such borrowers will follow the Alternative Payroll Covered Period thereafter).

Q3: What might limit my forgivable amount?

A3: Your loan forgiveness amount may be reduced as a result of reductions to employee headcount or wages.

Reductions in employee headcount

Loan forgiveness may be reduced if the average number of full-time equivalent employees you employ during the 8-week Covered Period is less than the average number of full-time equivalent employees (FTE) during the reference period:

- February 15, 2019 to June 30, 2019, or
- January 1, 2020 to February 29, 2020, or
- If you are a seasonal employer, any 12-week period between May 1, 2019 and September 15, 2019

Note: Any reductions made to your full-time employee headcount between February 15, 2020 and April 26, 2020 will not negatively impact your forgiveness amount if those reductions are reversed by June 30, 2020. Similarly, if you laid off an employee and then they elect not to return after you make a "good faith, written offer of rehire" it will not count as an FTE reduction for the purposes of forgiveness.

Reductions in salary or wages

Your loan forgiveness amount may be reduced if, during the 8-week Covered Period, you reduce total salary/wages for any employee more than 25% from the employee's average salary/wages between January 1, 2020 and March 30, 2020. This salary-reduction test only applies to employees that make \$100,000 or less.

Note: Salary/wage reductions made between February 15, 2020 and April 26, 2020 will not impact your loan forgiveness amount if they are reversed by June 30, 2020.

Q4: How do I calculate my potential reduction in loan forgiveness?

A4: Calculating your forgiveness starts by determining your 8-week Covered Period (or Alternative Payroll Covered Period if applicable), then calculating the total eligible payroll expenses for that period. The forgivable amount is subject to two tests: Full-Time Employee Headcount and any Salary Reductions.

Any funds advanced to you from the SBA as part of their Economic Injury Disaster Loan (EIDL) program will reduce your forgiveness amount.

Refer to Seattle Bank's **PPP Loan Forgiveness Calculator**, which you can download at **SeattleBank.com**, to get a better sense of the forgiveness picture for your business.

Q5: What may be considered an abuse of the program?

A5: It's important to remember that PPP was structured as revenue replacement, so that businesses could retain employees and pay their rent in order to mitigate a broader economic impact during the shutdown. To that end, anything that has the appearance of being abnormal compensation—except insofar as to compensate for disruption caused by COVID-19—runs the risk of being viewed as an abuse of the program.

Q6: Are there factors that may lead to additional scrutiny, trigger an audit, or prevent forgiveness?

A6: Clear accounting, straightforward expenses, and pertinent—ideally, third party—substantiation and verification will allow for a smooth processing, and reduced likelihood of scrutiny.

Q7: When can I apply for loan forgiveness?

A7: Technically, you can apply for forgiveness as soon as your 8-week Covered Period is complete. If you reduced salary or FTE during this time, it may be helpful to have June 30, 2020 supporting documents available to demonstrate those levels have been restored.

Q8: What documentation will I need to prepare?

A8: Page 10 of the PPP Loan Forgiveness Application has a comprehensive list of the types of documentation that will be required. Specific document requirements are dependent upon the payroll and nonpayroll expenses that you claim on your forgiveness request.

Here is a sample list of the types of items that you could be asked to provide:

- Reports from your payroll system or payroll processor that detail:
 - salary by employee
 - employee counts
- Payroll tax forms reported to the IRS (typically Form 941)

- State income, payroll, and unemployment insurance tax filings
- Payment receipts, canceled checks, and account statements documenting the amount of any employer contributions to employee health insurance and retirement plans
- Bank statements, canceled checks, payment receipts, amortization schedules, lease agreements, transcripts of accounts, or other documents verifying mortgage interest, rent, and utility payments

When you submit your PPP loan forgiveness request via Seattle Bank's online portal (coming soon), the system will generate a customized list of document requirements specific to your application.

Q9: What is the process after I submit my forgiveness application?

A9: The SBA defined the forgiveness process to provide banks 60 days to review forgiveness requests. In that time, your bank will review your request, and establish confidence that it is consistent with the program and adequately supported by documentation. The bank will then make a forgiveness request on your behalf. Once approved, the SBA will wire funds equaling the approved forgiveness amount to pay down all or part of your loan.

Q10: If my loan (or part of my loan) isn't forgiven, what happens next?

A10: If some or all of your loan isn't forgiven, you will repay the remaining loan amount as outlined in the note from your bank. Typically, that means you will have two years from the note date to pay back the remainder of your loan, at an interest rate of 1%.

At Seattle Bank, we structured our PPP loans with a built-in six-month payment deferral. After six months, monthly principal and interest payments are due. That payment amount will be re-amortized based on any reduction in the loan based on pay-down (forgiveness) by the SBA.

Q11: If part of my loan is forgiven now, can the SBA change the terms later in the year?

A11: There have been calls on the SBA to expand the covered period beyond 8 weeks, allow borrowers to choose a different 8-week period, and expand forgiveness provisions. We would hope any changes would be made in conjunction with complete forgiveness guidance and will keep you posted on what we learn.

Q12: Am I eligible for a Safe Harbor exception for headcount or wage reductions?

A12: Your company is eligible for this exception if you laid off employees or reduced wages between February 15, 2020 and April 26, 2020 as a result of the economic impact of COVID-19, but then re-hired and/or restored wages by June 30, 2020. If you feel you are eligible for this exception, please make sure to complete [Step 3 - Wage/Salary Reductions](#) and/or [Step 5 - FTE Reductions](#) in the [PPP Loan Forgiveness Calculator](#).

Q13: I do not remember the number of employees that I put on my loan application. How can I obtain that information?

A13: The number of employees on your loan application is not a number that will be used to determine your forgiveness amount. While the forgiveness application does have a field that asks for this number, it is not a requirement to have it match the number on your loan application. The loan forgiveness calculation is dependent on FTE. The [PPP Loan Forgiveness Calculator](#) located at [SeattleBank.com](#) will ask you for FTE information that is independent from information provided at application.

Q14: What should I do if I feel I won't be able to spend my entire loan amount during the covered period?

A14: You have the option of making repayments at any time. However, any amount of your PPP loan that is not eligible for forgiveness can be repaid after your loan forgiveness application is processed by Seattle Bank. If you prefer to wait, PPP loans accrue at 1% interest, so you'll want to request an exact payoff from Seattle Bank at that time.

Q15: How can I return part of my PPP loan proceeds?

A15: You may send a pre-payment via your banking institution's Bill Pay feature or contact ppphelp@seattlebank.com for wire instructions. If you plan on making a payment towards your PPP loan, it is a good idea to alert ppphelp@seattlebank.com so that we're on the lookout for your payment.

Q16: If I return part of my PPP funding, how does that impact the 75% payroll cost requirement for the forgiveness calculation?

A16: There are many variables that factor into the forgiveness calculation. In order to estimate how much of your loan will be forgiven, please complete the **PPP Loan Forgiveness Calculator** at SeattleBank.com. You always have the option of waiting until your loan forgiveness application has been processed by Seattle Bank and then repaying any outstanding balance at that time.

Q17: If I am an independent contractor with no employees, how will I complete the Seattle Bank's PPP Loan Forgiveness Calculator?

A17: Because you do not have any employees, you will enter zero wherever a field asks for FTE. Additionally, you are not required to complete Step 2 - Employee List, which captures wages paid to employees only. See the next question for more information.

Q18: I am an Independent Contractor, Owner-Employee or General Partner. Where do I enter my compensation into the Loan Forgiveness Calculator?

A18: This type of compensation should not be included in Step 2 - Employee List. Please enter Independent Contractor, Owner-Employee or General Partner income at Step 4 - PPP Schedule A. Compensation figures will be entered into the "Owner Compensation Table" at the bottom of Schedule A.

Note: Individual compensation is the lesser of \$15,385 or the 8-week equivalent of 2019 compensation (calculated using either line 31 of the 2019 1040 Schedule C or box 14a of the 2019 1065 K-1). The \$15,385 cap annualizes to a yearly salary of \$100K.

Q19: We have more than one Owner or General Partner in our company. How does that compensation get reported in the Loan Forgiveness Calculator?

A19: At the bottom of Step 4 - Schedule A, there is an "Owner Compensation Table". You will use this to itemize compensation for each Owner or General Partner.

PPP Loan Alternatives

Q1: I did not receive a PPP loan. What other options are available to me?

A1: The short answer is that it depends on your specific circumstances—and we recommend engaging your lender in a conversation where you can review your business objectives and evaluate your options based on factors like your company size, debt capacity before the crisis, and anticipated cash-flow cycle and profitability now.

Options beyond, or instead of, PPP loans will similarly depend on your goals and circumstances but may include some of the following:

Certain resources are available specifically in response to COVID-19:

- Economic Injury Disaster Loans
- Local grants
- Main Street Lending Program

It may make sense to explore other traditional business credit options, such as:

- Refinancing other business assets, such as commercial real estate
- Asset-based credit lines
- Other SBA loans (7A or 504 loans)

Other businesses may look to raise new capital in the form of:

- Crowdfunding
- Funding new equity through personal credit (i.e., refinancing your home or opening a home equity line of credit)
- Raising equity from outside investors

Seattle Bank Is Here to Help

If you have additional questions about PPP loan forgiveness or want to explore additional sources of support, we encourage you to contact our team and start a conversation. Whether you're a client or not, we're here to help and ready to answer your questions and provide guidance as you navigate this unprecedented time and position your business for a successful recovery.

Call: (206) 281-1500 | Visit: SeattleBank.com

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