



SEATTLE BANK
PPP LOAN FORGIVENESS FAQs
July 8, 2020

COVER PAGE

PPP Loan Forgiveness FAQs
Guidance for the Seattle Business Community

Disclaimer: The information in this document is current as of July 8, 2020; however it is subject to change.

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

SECTION 1

Section 1: PPP Loan Forgiveness Qualification & Process

Q1: Is there anything I need to do to choose the 24-week Covered Period?

A1: No--you will just need to indicate which Covered Period you would like to use when you fill out your PPP Loan Forgiveness Application. If your loan was approved 6/5/2020 or after, you will **only** have the 24-week option.

Q2: I have completed the 8-week Covered Period and spent 100% of my loan--can I apply for forgiveness now?

A2: We are awaiting additional information from the SBA, which is necessary to start processing forgiveness applications. We hope to receive this information by mid-July, at which point we will open our online portal. A communication will go out to all of our borrowers once our portal is live. Please keep in mind that you will have 10 months after the end of your Covered Period to apply for forgiveness.

Q3: Which PPP loan forgiveness application should I use?

A3: To help make it easier for some businesses to apply for PPP loan forgiveness, the SBA published a new PPP EZ loan forgiveness application. Form 3508EZ is for borrowers that meet certain requirements. To determine if you can use the EZ application, you should review the [Checklist for Using SBA Form 3508EZ](#) on the SBA's website. Borrowers that do not meet the requirements for using Form 3508EZ will apply using the updated PPP Loan Forgiveness Application Form 3508.

Q4: I am not sure if I should choose the 8- or 24-week Covered Period--how should I make this decision?

A4: We recommend that you use our forgiveness calculator to estimate your forgiveness amount at the end of your 8-week Covered Period. Based on this, you can decide how you'd like to proceed. We do know that extending the Covered Period to 24 weeks will allow borrowers a lot more flexibility in deciding which expenses to document. Some borrowers may prefer to extend their Covered Period to 24 weeks so that they will only need to document payroll in order to reduce the documentation burden. (Please keep in mind that loans approved 6/5/2020 or after will only have the 24-week option.)

Q5: I have employees on maternity leave, extended sick leave, etc.--how will this affect my forgiveness?

A5: This depends on whether you are paying your employees during their leave. If they are receiving paychecks, they can be counted as Full-time Equivalent (FTE) employees, and their wages will be included in your forgiveness calculations. If they are not being paid and were not replaced by a new employee, you cannot include them in your FTE headcount. However, you may be eligible for an FTE Reduction Exception so that their absence does not impact your Covered Period Average FTE number.

Q6: I had an employee resign after 2/15/2020; will this cause an FTE reduction?

A6: No. If the position was not filled by a new employee, you will adjust by adding the FTE back through the FTE Reduction Exception provided in the PPP Schedule A Worksheet.

Q7: I expect to spend all my loan proceeds before my 24-week Covered Period is over--can I apply for forgiveness early?

A7: As of 7/9/2020, due to the FTE certification requirements, you cannot apply for forgiveness early if you have employees. However, recent guidance indicates the intent is for borrowers to be able to apply early, so additional clarification/revisions are expected from the SBA to address this issue.

Q8: I am an owner-employee--are my wages/salary during the 8- or 24-week Covered period limited?

A8: Owner-employees' compensation is capped at \$15,385 for an 8-week Covered Period, and at \$20,833 for a 24-week Covered Period (or the 8- or 24-week equivalent of their 2019 compensation – whichever is lower). All other employees are capped at \$15,385 for an 8-week Covered Period, and at \$46,154 for a 24-week Covered Period.

Q9: I am a sole proprietor/independent contractor--how can I document my payroll for myself during this period?

A9: You can write yourself checks or document your bank transfers to show you are paying yourself from your loan proceeds during the Covered Period.

Q10: We paid large bonuses in 2019 that are reflected in our W-2 wages--will this cause a wage reduction even if I am paying my employees their contracted salary/wage? Or should I pay a bonus during the Covered Period?

A10: If you have maintained the employees' salaries/wages to their agreed-upon level as stated in their contracts, there will be no wage reduction.

Q11: I have chosen to use a 24-week Covered Period, but I expect to use 100% of the loan before this period ends--will having my employees go on unemployment affect my forgiveness?

A11: This is okay to do as long as they are not receiving unemployment and payroll at the same time.

Q12: My business has not been able to reopen due to COVID-19; can I still have my loan forgiven?

A12: Please refer to Safe Harbor 1 on page 5 of the forgiveness application instructions from the SBA to determine if your business meets these requirements.

Q13: I have heard it is best to use 100% of the forgiveness loan for payroll--is this the best way to go?

A13: This is correct--if you are able to do so, using 100% of your forgiveness loan toward payroll will significantly reduce the documentation requirements and make the forgiveness application process much simpler.

Q14: Payroll went out a few days/weeks before I received my loan--will this count toward payroll expenses for forgiveness?

A14: The SBA allows you to include expenses that were "paid or incurred during the Covered Period." Because the payroll referenced in this question was incurred and paid BEFORE your Covered Period, you cannot include it in your forgiveness calculations.

Q15: My payroll date is a few days/weeks after my Covered Period--can I pay this early or count it toward my payroll expenses?

A15: The SBA allows you to include expenses that were "paid or incurred during the Covered Period." If these expenses fit this requirement, then you can include them in your forgiveness calculations.

Q16: Do I need to have my forgiveness loan number and SBA number for my forgiveness application?

A16: Yes; however, we will have a lookup feature on our website so that you can quickly find this information.

Q17: I want the maximum forgiveness possible. How should I go about this?

- A17: 1. Document all eligible expenses (payroll and non-payroll) that were paid or incurred during your chosen Covered Period.
2. Make sure that you have documented enough eligible payroll expenses to account for 60% of your PPP loan amount. Eligible payroll expenses include:
- Salary, wages, tips, paid leave, or commissions (not to exceed an annual salary of \$100,000 for any employee)
 - Employer-funded benefits, such as healthcare, retirement, or state payroll taxes
3. Make sure that the balance of your PPP loan amount (loan amount minus payroll expenses) can be accounted for by documented non-payroll expenses (up to 40% of the entire loan amount). Eligible non-payroll expenses include:
- Business mortgage interest payments on mortgages in effect before 2/15/2020
 - Rent payments on leases dated prior to 2/15/2020
 - Utility payments for electricity, gas, water, transportation, telephone, or internet with service agreements in place before 2/15/2020

Q18: How is the Covered Period determined?

A18: The 8-week (56-day) or 24-week (168-day) Covered Period begins the day PPP funds were disbursed. For convenience, borrowers with a biweekly (or more frequent) payroll schedule may choose to begin their Covered Period on the day of their first pay period after their PPP loan was funded. Borrowers who are eligible for this option and elect to choose it will follow the Alternative Payroll Covered Period thereafter.

Q19: What might limit my forgivable amount?

A19: Your loan forgiveness amount may be reduced as a result of reductions to employee headcount or salary/wages.

- **Reductions in employee headcount -**

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

- 02/15/19 – 06/30/19 or
- 01/01/20 – 02/29/20 or
- If seasonal employer, any 12-week period between 05/01/19 – 9/15/19

Note: Any reductions made to your FTE employee headcount between 2/15/2020 and 4/26/2020 will not negatively impact your forgiveness amount if those reductions are reversed by the end of your Covered Period. Similarly, if you laid off an employee and then they elected not to return after you made 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 Covered Period, you reduced total salary/wages for any employee more than 25% from the employee's average salary/wages between 1/01/20 – 3/30/2020.

This salary-reduction test only applies to employees that make \$100,000 or less.

Note: Salary/wage reductions made between 2/15/2020 and 4/26/ 2020 will not impact your loan forgiveness amount if they are reversed by the end of your Covered Period.

Q20: How do I calculate my potential reduction in loan forgiveness?

A20: Calculating your forgiveness starts by determining your 8- or 24-week Covered Period (or Alternative Payroll Covered Period if applicable), then calculating the total eligible payroll and non-payroll expenses for that period. The forgivable amount is subject to two tests: full-time equivalent (FTE) employee headcount and any salary reductions.

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

Q21: What may be considered as an abuse of the program?

A21: 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 pandemic 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.

Q22: Are there factors that may lead to additional scrutiny, trigger an audit, or prevent forgiveness?

A22: Clear accounting, straight-forward expenses, and pertinent—ideally third-party—substantiation and verification will allow for smooth processing and reduced likelihood of scrutiny.

Q23: When can I apply for loan forgiveness?

A23: Technically, you can apply for forgiveness as soon as your Covered Period is complete. However, the certifications in the current versions of the forgiveness applications require you to confirm your Average Full-time Equivalent (FTE) employees during your Covered Period. You will not be able to certify that number until your Covered Period has expired. We are awaiting further guidance from the SBA on this issue. (Note: If you reduced salary or FTEs during your Covered Period, it may help to wait until 12/31/2020, or earlier if you are able to demonstrate that those levels have been restored.)

Q24: What documentation will I need to prepare for the forgiveness application?

A24: Page 6 of the PPP Loan Forgiveness Application instructions and Page 4 of the 3508EZ Form has a comprehensive list of the types of documentation that will be required from you. Specific document requirements are dependent upon the payroll and non-payroll 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, and
 - employee counts
- Payroll tax forms reported to the IRS (typically Form 941)
- State income, payroll, and unemployment insurance tax filings
- Payment receipts, cancelled 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 payments on 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 that are specific to your application. If you choose to only include salary/wages as eligible expenses in your forgiveness application, your documentation requirements will be greatly reduced.

Q25: What is the process after I submit my forgiveness application?

A25: 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 determine if your forgiveness request is adequately supported by the documentation that you provided. The bank will then make a forgiveness determination and submit that decision to the SBA. The SBA then has 90 days to review it. The SBA will determine your final forgiveness amount and will wire funds to Seattle Bank. Seattle Bank will apply those funds to your outstanding loan amount. (Full forgiveness decisions will also include any accrued interest.) If there is any residual loan amount left over after forgiveness funds are applied, Seattle Bank will create modified loan documents for you to execute.

Q26: If my loan (or part of my loan) isn't forgiven, what happens next?

A26: 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 2 or 5 years from the note date to pay back the remainder of your loan, at an interest rate of 1%. If there is any residual loan amount remaining after the SBA remits forgiveness funds to Seattle Bank, we will create modified loan documents. Borrowers with loans issued prior to 6/5/20 may work with Seattle Bank to extend their loan term to 5 years. See Q35 for updated guidance related to your loan deferral period.

Q27: Am I eligible for a Safe Harbor exception for headcount or wage reductions?

A27: Your business is eligible for this exception if you laid off employees or reduced wages between 2/15/20 and 4/26/20 as a result of the economic impact of Covid-19, but then rehired and/or restored wages by 12/31/20. 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.

Q28: I do not remember the number of employees that I put on my loan application. How can I obtain that information?

A28: 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 (full-time equivalent) employees. The **PPP Loan Forgiveness Calculator** located at **SeattleBank.com** will ask you for FTE information that is independent from information provided during application.

Q29: What should I do if I feel I won't be able to spend my entire loan amount during the Covered Period?

A29: 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.

Q30: How can I return part of my PPP loan proceeds?

A30: 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 toward your PPP Loan, it is a good idea to alert ppphelp@seattlebank.com so that we're on the lookout for your payment.

Q31: If I return part of my PPP funding, how does that impact the 60% payroll cost requirement for the forgiveness calculation?

A31: There are many variables that factor into the forgiveness calculation. To estimate how much of your loan will be forgiven, please complete the PPP Loan Forgiveness Calculator, which can be downloaded from SeattleBank.com. You always have the option of waiting until your PPP Loan Forgiveness Application has been processed by Seattle Bank and then repay any outstanding balance at that time.

Q32: If I am an independent contractor with no employees, how will I complete the Seattle Bank's PPP Loan Forgiveness Calculator?

A32: Because you do not have any employees, you will enter zero wherever a field asks for FTE (full-time equivalent) employees. Additionally, you are not required to complete Step 2 - Employee List, as it captures wages paid to employees only. Please see question Q3 for details on Form 3508EZ, as the SBA released a new forgiveness application for use by independent contractors with no employees.

Q33: I am an independent contractor, owner-employee, or general partner. Where do I enter my compensation into the Loan Forgiveness Calculator?

A33: 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: Please see question Q8 for limits to owner-employee wages.

Q34: We have more than one owner or general partner in our company. How does that compensation get reported in the Loan Forgiveness Calculator?

A34: 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.

Q35: The first payment of my loan is before/near the end of my 24-week Covered Period--am I able to get a deferral?

A35: Yes, we plan to extend the deferral period on loans that might apply to this situation, and we will initiate a modification to your loan agreement before the payment is due. Recent updates extended the deferral period to the date that Seattle Bank receives forgiveness funds from the SBA.

SECTION 2: PPP Loan Alternatives

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

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

SECTION 3: Closing

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 or not you're a Seattle Bank client, we're here to help, and we're 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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