



PPP Loan Forgiveness FAQ October 26, 2020

Guidance for the Seattle Business Community

Now that the focus has shifted 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.

Disclaimer: The information in this document is current as of October 26, 2020, however it is subject to change.

Section 1: PPP Loan Forgiveness Qualification and Process

Q1: Is there anything I need to do now to choose the 24-week covered period?

A1: No, you will indicate which period you would like to use when you fill out your PPP Loan Forgiveness Application. If your loan was funded 6/5 or after, our online portal will only provide you with the 24-week option.

Q2: What is the 3508S and do I need to provide documents if I use this form?

A2: Form 3508S will be used by any borrower with a loan amount under \$50,000. It eliminates the FTE and wage reduction calculations and does not require borrowers to submit their forgiveness calculations. However, the documentation requirements remain the same, and it is up to the borrower to ensure all expenses are documented per SBA requirements.

Q3: Which PPP loan forgiveness application should I use if my loan amount is over \$50,000?

A3: To help make it easier for some businesses to apply for PPP Loan forgiveness, the SBA published the 3508EZ Loan forgiveness application. To determine if you are eligible to use the EZ application, you will want to review the **PPP Loan Forgiveness Application Form EZ Instructions** found on the Treasury's website for the CARES Act. Borrowers that do not meet the requirements for using Form 3508EZ will apply using the PPP Loan Forgiveness Application Form 3508. Any borrower with a loan under \$50,000 will automatically use Form 3508S.

Q4: I am not sure if I should choose 8 or 24 weeks; how should I make this decision?

A4: We recommend using a 24-week covered period. The benefit of this is that borrowers will likely be able to report only payroll to get full forgiveness. This will significantly reduce the documentation requirements because you will not need to report other expenses. If you still don't meet full forgiveness with just payroll, the other eligible expenses are still available to you, but will require additional documentation.

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 employee during their leave. If they are receiving a paycheck, they can be counted as FTE 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 should 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 February 15th; 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. See Page 5 in the PPP Loan Forgiveness Application instructions.

Q7: I expect to spend all my loan proceeds before my 24 weeks is up, can I apply for forgiveness early?

A7: Yes, if you have spent all of the funds in which you are asking forgiveness for, then you may apply for forgiveness before your 24- week covered period ends.

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

A8: Owner-employee compensation is capped \$15,385 for an 8-week covered period, and \$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 \$46,154 for a 24-week covered period.

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

A9: You will submit your 2019 tax return (1040 Schedule C, Schedule K1, etc.) as documentation of forgiveness.

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 expect to use 100% of the loan before this date, 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. You cannot include unemployment wages in your PPP Loan Forgiveness application.

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 and determine if your business meets these requirements.

Q13: I have heard it is best to document 100% of your loan amount with payroll, is this the best way to go?

A13: That is correct. If you are to do so, documenting 100% of your loan with payroll will significantly reduce the document requirements and make the forgiveness application process much smoother.

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

A14: The SBA allows you to include expenses that were "paid or incurred during the covered period". Since the payroll referenced in this question was both 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 towards 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 your forgiveness calculations.

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

A16: Yes, however Seattle Bank's forgiveness portal will auto-populate your Seattle Bank and SBA loan numbers when you start your application through our website.

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

- A17:
1. Document eligible expenses to cover your loan amount. Expenses must be paid or incurred during your chosen covered period.
 2. Payroll expenses must account for at least 60% of your PPP Loan Amount (preferably 100%). 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. If Payroll expenses are insufficient to cover your loan amount, document the balance with non-payroll expenses (up to 40% of your entire loan amount). Eligible non-payroll expenses 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

Q18: How is the Covered Period determined?

- A18: The eight-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 less than your loan amount if you reduced 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 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 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 the end of your covered period. 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 covered period, you reduce total salary/wages for any employee more than 25% from the employee’s average salary/wages between 01/01/20 – 3/30/2020. This salary-reduction test only applies to employees that make \$100,000 or less.
- Note:** Salary/wage reductions made between February 15, 2020 and April 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: Reductions in Full-Time Employee (FTE) and Salary Reductions > 25%. Seattle Bank's online application will prompt you to fill in your numbers for FTE and Wage reductions and then calculate the reduction to your loan forgiveness amount.

Q21: What is considered 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 mitigate the 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.

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 a smooth processing, and reduced likelihood of scrutiny.

Q23: When can I apply for loan forgiveness?

A23: You can apply for forgiveness as soon as you have spent all of the funds in which you are asking forgiveness for (including before your 24-week covered period has expired, if applicable).

Q24: What documentation will I need to prepare?

A24: Page 6 of the 3508 instructions or Page 4 of the 3508EZ instructions have comprehensive lists of the types of documentation that is required. 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 hours
- 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 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, 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. Please note that if you meet full forgiveness with just payroll and are not reporting any other expenses, there is no need to submit documents for these other expenses.

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

A25: The SBA defined the forgiveness process to allow banks 60 days to review forgiveness requests. If you submit your requests via Form 3508 or Form 3508EZ, your bank will review the calculations and documentation to determine if the forgiveness request is adequately supported. Form 3508S does not require the same level of lender scrutiny since you do not submit your calculations with that form. The bank will then make a forgiveness determination and submit that decision to the SBA. Seattle Bank's turnaround time is typically 24-48 hours. The SBA has 90 days to review your application but has told the industry that they intend to render decisions quicker than that. 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 give you the choice to either pay off the remaining balance in full or start making monthly payments.

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

A26: If your entire loan amount isn't forgiven, you can either repay the balance in full or repay the remaining loan amount as outlined in the loan note. 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 you choose to repay your residual loan amount via monthly payments, we will create modified loan documents for you to execute. Borrowers with loans funded prior to 6/5/2020 may work with Seattle Bank to extend their loan term from 2 years to 5 years. See Q34 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 company is eligible for this exception if you laid off employees or reduced wages between 2/15/20 and 4/26/20 because of the economic impact of COVID-19, but then re-hired and/or restored wages by December 31st. Please review Page 5 of the 3508 forgiveness application instructions to determine if you are eligible for this exception.

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). Please see Page 4 of the 3508 forgiveness application instructions.

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 towards 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. Please contact ppphelp@seattlebank.com with questions related to your company's specific situation.

Q32: If I am an independent contractor with no employees, what forgiveness application should I use?

A32: When you log into Seattle Bank's online forgiveness portal, the system will automatically route you to use the new 3508S application.

Q33: I am an Independent Contractor, Owner-Employee or General Partner with employees. Where do I enter my compensation into the Loan Forgiveness Calculator?

A33: This type of compensation should not be included in the PPP Schedule A Worksheet with regular employee wages. Please use the "Owner Compensation" section of the form.

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

Q34: The first payment of my loan is before/near the end of my 24-week covered period, am I able to get a deferral?

A34: The Paycheck Protection Program Flexibility Act (PPFPA) signed into law on 6/5/2020 automatically extended the deferral period for all borrowers. You do not need to worry about any payments until the date that Seattle Bank receives Forgiveness funds from the SBA. The language in the PPFPA supersedes the language in the loan documents, so there is no need to execute any additional documentation. Once Seattle Bank receives funds from the SBA, we will determine if you have any leftover loan balance and reach out to you to determine next steps.

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 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

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