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SBA issues details for Paycheck Protection Program loans

By Jeff Drew

The U.S. Small Business Administration on Thursday issued an interim final rule (https://content.sba.gov/sites/default/files/2020-04/PPP--IFRN%20FINAL.pdf) for the Paycheck Protection Program (PPP), which is offering $349 billion in forgivable loans that small businesses impacted by the coronavirus pandemic can use to cover costs including payroll and rent.

The interim final rule lays out additional implementation guidelines and requirements for the PPP, which Congress created as part of the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, P.L. 116-136. The new rule provides greater clarity on several issues and changes the interest rate on loans made under the program from 0.5% to 1%, a change the American Bankers Association said (https://bankingjournal.aba.com/2020/04/treasury-sba-to-increase-rate-on-paycheck-protection-program-loans/) would encourage banks of all sizes to participate in the program.

The CARES Act established the PPP as a new 7(a) loan option overseen by the Treasury Department and backed by the SBA, which is authorized to provide a 100% guarantee to lenders on loans issued under the program. The full principal amount of the loans may qualify for loan forgiveness if the borrower maintains or rehires staff and maintains compensation levels. However, not more than 25% of the loan forgiveness amount may be attributable to nonpayroll costs.

Loan payments will be deferred for six months; however, interest will continue to accrue during the six-month deferment. No collateral or personal guarantees are required.

The program is available to small businesses that were in operation on Feb. 15 with 500 or fewer employees, including not-for-profits, veterans' organizations, Tribal concerns, self-employed individuals, sole proprietorships, and independent contractors. Businesses with more than 500 employees in certain industries also can apply for loans, according to the SBA and Treasury.

Small businesses and sole proprietorships can apply for PPP loans beginning today. Independent contractors and self-employed individuals can apply beginning April 10.

Under the PPP, the maximum loan amount is the lesser of $10 million or an amount calculated using a payroll-based formula specified in the CARES Act. *Note: You can access free loan calculators on the AICPA's PPP resource page* (https://www.aicpa.org/interestareas/privatecompaniespracticesection/qualityservicesdelivery/sba-paycheck-protection-program-resources-for-cpas.html).

PPP loans will be available through June 30 or until the funds run out. Due to expected high demand, Treasury recommends that applications be submitted as soon as possible. The application can be found here (https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Application-3-30-2020-v3.pdf) on the Treasury site, along with details for borrowers (https://home.treasury.gov/system/files/136/PPP%20Borrower%20Information%20Fact%20Sheet.pdf) and lenders (https://home.treasury.gov/system/files/136/PPP%20Lender%20Information%20Fact%20Sheet.pdf).

The CARES Act permits the PPP's forgivable loans to pay for up to eight weeks of payroll costs, including benefits and other costs. In addition to payroll, recipients also can use PPP funds to pay interest on mortgages, rent, and utilities.

Small businesses applying for PPP loans must submit documentation, such as but not limited to payroll processor records or payroll tax filings, that establishes their eligibility for the loans. The interim final rule issued Thursday clarified that the SBA will allow lenders to rely on the borrower's documentation to determine if the borrower is eligible for the loans. Lenders can accept e-signatures and e-consents. Lenders who comply with the obligations laid out in the interim final rule will not be held responsible if the borrower submits fraudulent or inaccurate information.

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