Paycheck Protection Program

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Paycheck Protection Program
What it is and how it works

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Speaking today

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NOTE: Information presented is valid, as of April 23, 2020. The SBA continues to share updated information on the PPP program.
Program Overview
What is the Paycheck Protection Program?

PPP, as part of the CARES (Coronavirus Aid, Relief and Economic Security) Act, provides SBA loans to small businesses to help them pay for ongoing expenses.

- PPP Authorization cap: $659 billion
  - $349 billion in first round of program funding
  - Additional $310 billion in second round of program funding

- If loan proceeds are used for specific purposes, they are also eligible for forgiveness and will not have to be repaid by the borrower.
Loan features

100% SBA guarantee
No personal guarantee
No SBA fees
No collateral
Automatic 6 month deferral
1% fixed interest rate
2 year term for any unforgiven amounts
No credit elsewhere test
Eligibility

Be in operation on 2/15/2020 AND have employees for whom it paid salaries and payroll taxes

Small business concerns, including sole proprietorships, independent contactors and eligible self employed individuals.

Nonprofit organizations (501(c)(3))

Veterans organizations (501(c)(19)) and Tribal business concerns

Under 500 employees or the size standard established by the SBA for the industry in which the business operates, if larger

- Businesses with NAICS code starting with 72 (accommodation and food services) with more than 1 physical location can have up to 500 employees per location.

SBA Affiliation Regulations do apply, with waivers for 3 circumstances

- NAICS code of 72
- Franchises with an assigned Franchise Identifier Code from the SBA
- Businesses that receive financial assistance from an SBIC
Requirements

Limited borrower requirements to obtain a loan under the new program include a good-faith certification by each owner or an authorized representative on behalf of the owners:

- The loan is needed to continue operations during the COVID-19 emergency.
- Funds will be used to retain workers and maintain payroll or make mortgage, lease and utility payments.
- Documentation verifying # of employees, $ amount of payroll costs, and other expenses will be provided to the lender.
- The lender will calculate the eligible loan amount using tax documents provided and confirm that those tax documents are identical to those submitted to the IRS.
- Loan forgiveness may be provided for documented eligible costs (not more than 25% of forgiven amount may be non-payroll costs).
- From February 15, 2020 until December 31, 2020, the applicant has not received duplicative amounts for the same purposes though another loan under this program.
- Information provided in the application and supporting documents is true and accurate.
Use of funds

- Payroll costs
- Costs for continuation of group health care benefits
- Employee salaries, commission, or similar
- Rent
- Utilities
- Payment of interest on any mortgage obligation
- Interest on other debt incurred before the covered period (however, not eligible for forgiveness)
- Refinance of an SBA EIDL disaster loan made between 1/31/2020 and 4/3/2020 can be included
Timeline

March 27, 2020
CARES Act signed into law

April 27, 2020
SBA has 30 days according to law to interpret and implement program

April 3, 2020*
Applications for the program became active

April 16, 2020
Initial funding ran out

Late April 2020
2nd round of funding expected

Many banks and financial institutions are now taking applications for the 2nd round of SBA PPP funding.

March 27, 2020

Coverage Period

February 15

April 3, 2020*
Applications for the program became active

April 16, 2020
Initial funding ran out

Late April 2020
2nd round of funding expected

Many banks and financial institutions are now taking applications for the 2nd round of SBA PPP funding.

*US Treasury indicated that applications were accepted:
- April 3, 2020 for small businesses and sole proprietorships
- April 10, 2020 for independent contractors and self-employed individuals
Application Process
How can I apply?

Commerce Bank advises small businesses interested in applying for PPP to inquire with the bank or financial institution with whom you have a current business deposit account with.

Why?
• Mitigate potential fraud
• Address security concerns
• Secure loan funding as efficiently and quickly as possible
Typical application process

1. Application submission
2. Review application for completeness
3. Loan amount calculation (and validation)
4. Submission to SBA for approval
5. Documentation preparation
6. If approved, loan closes
What’s required* for my application?

Banks may differ on their requirements for application to the PPP, outside of the SBA PPP Borrower Application Form.

Generally, the SBA requires the following:

• SBA PPP Borrower Application Form (SBA Form 2483)
• Supporting Documentation
  - Ownership information
  - Evidence your business was in operation on Feb 15, 2020
  - Payroll documentation & number of employees
  - 2018 & 2019 tax returns
  - Franchise agreement (if applicable)

*Commerce Bank requirements are provided at [www.commercebank.com/ppp](http://www.commercebank.com/ppp).
Calculating my loan amount

1. **Business In Operation for the Past 12 Months**
   
   \[ \text{2.5x} \]
   
   Average total monthly payroll costs incurred during the year prior to the loan date

2. **Business Not Operational in 2019**
   
   \[ \text{2.5x} \]
   
   Average total monthly payroll costs incurred January & February 2020

3. **Seasonal Employers**
   
   \[ \text{2.5x} \]
   
   Average total monthly payroll costs incurred for a 12-week period beginning February 15, 2019 or March 1, 2019 (chosen by applicant) and ending by June 30, 2019

Loans can be up to 2.5x the borrower’s average monthly payroll costs, not to exceed **$10 million**

*Your bank may provide a loan calculator to help you calculate your PPP loan needs. Commerce Bank customers can access this at commercebank.com/ppp.*
Loan Forgiveness
What is loan forgiveness?

Banks and financial institutions are still learning more about the details on how this will work with the SBA.

We know that...

• The SBA will forgive payments of principal and interest on a loan amount equal to what you spend on eligible expenses for eight weeks from the date of your loan.

• Borrowers will need to provide receipts and documentation on how their PPP funds are used.
A borrower is eligible for loan forgiveness equal to the amount the borrower spent on the following items during the 8-week period beginning on the date of the origination of the loan:

- Payroll costs (using the same definition of payroll costs used to determine loan eligibility)
- Interest on the mortgage obligation incurred before February 15, 2020
- Rent on a leasing agreement
- Payments on utilities (electricity, gas, water, transportation, telephone, or internet)
- For borrowers with tipped employees, additional wages paid to those employees

The loan forgiveness cannot exceed the principal and not more than 25% of forgiveness amount may be for non-payroll expenses.

The amount forgiven will not be considered income and will not be taxed.

*This information is a summary description of important aspects of the debt forgiveness process but is not an exhaustive list of all requirements or details of the process. Further information regarding the debt forgiveness process continues to be updated by the SBA.*
Where can I learn more?

Your bank’s website, or [Commercebank.com/ppp](https://www.Commercebank.com/ppp).

Other helpful resources:

- [Coronavirus Resources for Nonprofits](https://www.nonprofitconnect.org/coronavirus-resources) prepared by Nonprofit Connect
- [SBA Paycheck Protection Program Website](https://www.sba.gov/paycheckprotection)
- [SBA Approved PPP Lenders](https://www.sba.gov/
- [US Treasury Paycheck Protection Website](https://www.treasury.gov/index.php?
- [KC Chamber Coronavirus Resources](https://www.kcchamber.com/coronavirus)
- [St. Louis Regional Chamber COVID-19 Resources](https://www.stlchamber.org/coronavirus)
Reminder: To address potential fraud and other security concerns, Commerce Bank advises small businesses and non-profit organizations interested in applying for PPP, to inquire with the bank or financial institution with whom you have a current business deposit account with.