PPP Loan Forgiveness Application Process

***Updated June 30, 2020***

**Forgiveness Eligibility Requirements**

Outlined below are the eligibility requirements for forgiveness under the PPP revised legislation:

* For loans made prior to June 5, the forgiveness period has been extended from 8 weeks to 24 weeks, or a borrower may choose to maintain the original 8 weeks; the covered period cannot extend beyond December 31, 2020. If your loan was made after June 5, your forgiveness period is 24 weeks with the covered period not extending beyond December 31, 2020.
* Until the publication of the most recent changes, many borrowers anticipated having to wait until the expiration of the 24-week forgiveness period to submit their forgiveness applications. However, changes to the IFRs to address this issue seem to eliminate this concern by stating that “**a borrower may submit a loan forgiveness application any time on or before the maturity date of the loan – including before the end of the covered period – if the borrower has used all of the loan proceeds for which borrower is requesting forgiveness.**” Note, however, that if the borrower applies for forgiveness before the end of the covered period and has reduced any salaries or wages of employees earning under $100,000 annualized per year by more than 25%, the borrower “must account for the excess salary reduction for the full 8-week or 24-week covered period.”
* While this is a borrower-friendly change, borrowers with FTE reductions that are considering applying for forgiveness before the end of the 24 weeks should be cognizant of the impact of the FTE haircut on loan forgiveness. If the borrower elects a period of less than 24 weeks, the haircut would likely be applied to a lesser amount than if the borrower extends its forgiveness period to the full 24 weeks.
* The required percentage of funds to be used for payroll expenses has been reduced from 75 to 60%; however, the borrower must spend at least 60% of the funds on payroll expenses or forgiveness eligibility will be reduced.

We recommend that you utilize these funds as much as possible on payroll-related expenses to reduce the burden of providing backup for utilities paid, etc

* Borrowers can use the 24-week period to restore their workforce levels and wages to the pre-pandemic levels required for full forgiveness.The deadline to do so has been extended from June 30 to December 31, 2020.
* With the extension of the available loan forgiveness period to 24 weeks, the SBA has adjusted the FTE safe harbor date to Dec. 31, 2020. Borrowers that have experienced headcount reductions now have until Dec. 31, 2020 to restore that headcount without penalty – regardless of whether they elect to use the 8-week or the 24-week forgiveness period. Importantly, however, borrowers with FTE reductions should consider how the timing of the filing of the forgiveness application will impact the FTE adjustments. **Borrowers who file their forgiveness applications prior to Dec. 31, 2020 will have their FTE reductions evaluated as of the filing date of the forgiveness application. Accordingly, borrowers that have exhausted funding and may need to reduce workforce due to current economic uncertainty may wish to apply as soon as the funds as exhausted as the application date becomes the FTE reduction safe harbor date (i.e., borrowers must maintain FTEs through the date of application or Dec. 31, 2020, whichever is earlier).**
* There are two new exceptions allowing borrowers to achieve full PPP loan forgiveness even if they don’t fully restore their workforce. Previous guidance already allowed borrowers to exclude from those calculations employees who turned down good faith offers to be rehired at the same hours and wages as before the pandemic. The new bill allows borrowers to adjust because they could not find qualified employees or were unable to restore business operations to Feb. 15, 2020, levels due to COVID-19 related operating restrictions.
* In addition to the FTE reduction adjustments, the PPP Flexibility Act also established two new exemptions based on employee availability and business activity that would eliminate a reduction in the loan forgiveness amount otherwise required. The changes to the IFRs provide borrowers with additional information regarding the substantiation and documentation of these exemptions.
* a.Borrowers that are able to document an inability to rehire individuals by Dec. 31, 2020 who were employees of the borrower on Feb. 15, 2020 and an inability to hire similarly qualified employees in unfilled positions can qualify for an FTE reduction exception for these positions. In order to document this exception, a borrower must inform the applicable state un-insurance office within 30 days of the employee’s rejection of the offer. Borrower should maintain the written offer to re-hire the individual, a written record of the offer’s rejection, a written record of the efforts to hire a similarly qualified individual and any other documentation showing compliance with this exception.
* b. Borrowers that can document an inability to return to the same level of business activity as Feb. 15, 2020 because of compliance with Health and Human Services (HHS), Centers for Disease Control (CDC) or Occupational Safety and Health Administration (OSHA) requirements during the period March 1, 2020 through Dec. 31, 2020 can qualify for an FTE reduction exception and must provide documentation of applicable COVID Requirements or Guidance for each business location and relevant borrower financial records. The SBA recognizes that many of the sanitation requirements, social distancing standards, or other worker or customer safety requirements may be issued by state or local authorities and provides that borrowers can certify a reduction in business activity that stems directly or indirectly from the HHS, CDC, or OSHA requirements. In plain language, this allows borrowers to document a decrease in business activity based as a result of state and local government shutdown orders.
* For loans made prior to June 5, your loan's maturity remains at 2 years. For loans made after June 5, loan maturity is 5 years.
* PPP borrowers may also delay payment of their payroll taxes, which was prohibited under the CARES Act.

We encourage you to review the [Treasury’s PPP Borrower FAQ](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/Paycheck-Protection-Program-Frequently-Asked-Questions-062520-508.pdf) for information on appropriate use and forgiveness requirements.

 **Forgiveness Application Submission**

Each bank may have its own requirements for documentation required for the PPP Loan Forgiveness Process. Please check the website of your bank for more detailed information. The Diocese can provide the backup needed for clergy salary (payroll reports to match your invoices) and Mutual of America 403B EFT payments made for each payroll used.

You should start to compile a file containing the following points of documentation:

* Copies of payroll tax reports file with the IRS (including Forms 941, 940, state income and unemployment tax filing reports) for the covered period following the disbursement of the loan. (2Q Form 941 Return can be provided by Diocese)
* Copies of payroll reports for each pay period for the covered period following the disbursement of the loan. Gross wages including PTO (which might include vacation, sick and other PTO) should be reflected. (Labor Distribution Reports)
* Documentation reflecting the health insurance premiums paid by the company under a group health plan including owners of the company for the covered period following the disbursement of the loan should be provided. Copies of the monthly invoices should suffice.
* Documentation of all retirement plan funding by the employer for the covered period following the disbursement of the loan should be sufficient. Copies of work papers, schedules and remittances of the retirement plan administrator should be available. Diocese can provide copies of bi-weekly EFT for each payroll used)
* Copies of all lease agreements for real estate and tangible personal property should be presented along with proof of payment during the covered period following the loan origination date, if used.
* Copies of all statement of interest paid on debt obligations incurred prior to February 15, 2020, indicating payment amounts and proof of payment for the 24 week period following the disbursement of the loan.
* Copies of canceled checks, statements or other evidence of utilities paid during the “covered period” for the covered period following the disbursement of the loan.
* Any and all additional documentation required by the bank to support and document the use of the proceeds of the loan.

**Application Versions**

Two versions of the Forgiveness Application have been made available for your use by the SBA.

**3508EZ PPP Loan Forgiveness Application**

To be eligible for use of the 3508EZ application, you must meet [one of the three requirements outlined](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/Checklist-for-Using-SBA-Form-3508EZ.docx)

* [3508EZ Instructions](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/PPP-Loan-Forgiveness-Application-Form-EZ-Instructions-Revised-06.16.2020.pdf)
* [3508EZ Application](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/PPP-Forgiveness-Application-3508EZ-Revised-06.16.2020.pdf)

**Standard Application**

* [Application Instructions](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/PPP-Loan-Forgiveness-Application-Instructions-Revised-6.16.2020.pdf)
* [Standard Application](https://www.dioceseofscranton.org/wp-content/uploads/2020/07/PPP-Loan-Forgiveness-Application-Revised-6.16.2020.pdf)

You will need to document the calculations used to support your FTE level calculations and keep in your file. The Diocese has developed reports that can be used to support these calculations if you would like us to run and send for your use.