Changes to the Paycheck Protection Program
Presenters

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Agenda

- What’s changed?
- Overall program update
- Pending developments
- Paycheck Protection Program Flexibility Act of 2020
- Loan forgiveness application
- Interim Final Rule on Loan Forgiveness
- Comprehensive example
## CARES Act PPP versus PPP Flexibility Act of 2020

<table>
<thead>
<tr>
<th>Item</th>
<th>CARES Act PPP</th>
<th>PPP Flexibility Act of 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan application period</td>
<td>Ends June 30</td>
<td>No change</td>
</tr>
<tr>
<td>Covered period for loan forgiveness</td>
<td>8 weeks</td>
<td>24 weeks*</td>
</tr>
<tr>
<td>Loan maturity period</td>
<td>2 years</td>
<td>5 years for new borrowers</td>
</tr>
<tr>
<td>Payroll cost requirement</td>
<td>At least 75%**</td>
<td>At least 60%</td>
</tr>
<tr>
<td>Employee retention credit</td>
<td>Not eligible for concurrent credit</td>
<td>No change</td>
</tr>
<tr>
<td>Payroll tax deferral</td>
<td>Available until loan forgiveness is granted</td>
<td>Now available in full</td>
</tr>
<tr>
<td>Loan reduction potentials</td>
<td>2 (FTEs/wages)</td>
<td>No change</td>
</tr>
<tr>
<td>Loan reduction exemptions</td>
<td>6***</td>
<td>8</td>
</tr>
<tr>
<td>Tax deductibility of expenses</td>
<td>Not deductible</td>
<td>No change</td>
</tr>
</tbody>
</table>

*A borrower can elect to use original eight week period
** While not in the CARES Act, this rule was promulgated by the SBA Administrator and Treasury Department
*** The CARES Act included the FTE and/or hourly/salary wage restoration and the SBA Administrator added the re-hire exemption as well as the termination for cause, voluntary resignation, and voluntary reduction exemption
### Summary of PPP Approved Lending

<table>
<thead>
<tr>
<th>Loan Count</th>
<th>Net Dollars</th>
<th>Lender Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,531,883</td>
<td>$511,382,171,979</td>
<td>5,458</td>
</tr>
</tbody>
</table>

*Approvals through 06/06/2020*
### Loan Size

<table>
<thead>
<tr>
<th>Loan Size</th>
<th>Loan Count</th>
<th>Net Dollars</th>
<th>% of Count</th>
<th>% of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50K and Under</td>
<td>2,943,201</td>
<td>$54,321,982,874</td>
<td>64.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>&gt;$50K - $100K</td>
<td>655,007</td>
<td>$46,652,835,938</td>
<td>14.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>&gt;$100K - $150K</td>
<td>284,657</td>
<td>$34,851,771,625</td>
<td>6.3%</td>
<td>6.8%</td>
</tr>
<tr>
<td>&gt;$150K - $350K</td>
<td>369,737</td>
<td>$83,081,546,207</td>
<td>8.2%</td>
<td>16.2%</td>
</tr>
<tr>
<td>&gt;$350K - $1M</td>
<td>197,098</td>
<td>$112,146,690,696</td>
<td>4.3%</td>
<td>21.9%</td>
</tr>
<tr>
<td>&gt;$1M - $2M</td>
<td>52,578</td>
<td>$72,838,506,833</td>
<td>1.2%</td>
<td>14.2%</td>
</tr>
<tr>
<td>&gt;$2M - $5M</td>
<td>24,788</td>
<td>$73,686,354,483</td>
<td>0.5%</td>
<td>14.4%</td>
</tr>
<tr>
<td>&gt;$5M</td>
<td>4,817</td>
<td>$33,802,483,324</td>
<td>0.1%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

* Overall average loan size is: $113K.*
Amount of Funding Remaining

$130,681,819,671

Available funds captures approvals net of cancellations as well as loan increases, decreases, and reinstatements. This amount accounts for statutory program costs.

Approvals through 06/06/2020
SBA Paycheck Protection Program (PPP) – update (cont.)

• More disclosure coming?
  - SBA has started to disclose top PPP lenders (top 15)
  - SBA has received requests to post borrower information to its website

• Federal tax deductibility
  - Presently forgiven expenses are not deductible
  - Various legislation has been proposed for a ‘fix’
  - Broad bipartisan support for legislation
  - Tax Notes reporting that Senator Cornyn (R-Texas) is hopeful to have a Senate vote this week
Paycheck Protection Flexibility Act of 2020

- Extends covered period from 8 weeks to 24 weeks or December 31, 2020, whichever is earlier
- Adds exemptions to loan forgiveness reductions
  - Employee availability exemption
  - Business activity exemption
- Enacts payroll cost requirement
  - At least 60% (will be clarified to not be a ‘cliff’)
Paycheck Protection Flexibility Act of 2020 (cont.)

• Increases loan maturity date from two years to five years for new borrowers
• Extends the deferral period for borrower payments
• Amends payroll tax deferral section in CARES Act to allow for full deferral of payroll taxes for PPP borrowers
Loan forgiveness application

• Version 1 issued May 15
  - Modified / more streamlined application forthcoming as a result of Congressional changes

• SBA appears to be taking borrower favorable approach

• Contains application as well as supplemental schedules to assist in computation of FTEs and salary/hourly reductions

• Provides required documentation for submission as well as supplemental information that must be retained by borrower
Loan forgiveness application (cont.)

- Application was simple, but forgiveness calculations complex and labor intensive
- Contains several borrower favorable items:
  - Ordering rules of loan forgiveness reductions
  - Computation of potential forgiveness amounts
  - Computation of average FTEs
Interim Final Rule on Loan Forgiveness (May 22)

- Provides eligible costs with examples
- Describes loan forgiveness process
- Provides authority for re-hire exemption
- Defines full-time equivalent and how to compute total FTEs
- Provides documentation requirements
Interim Final Rule on Loan Forgiveness (cont.)

- Payroll costs
  - Incurred and/or paid during covered period
  - Companies with a bi-weekly or more frequent payroll cycle may elect an alternative payroll covered period
  - Include wages, salary, or commission payments to furloughed employees
  - Bonuses or hazard pay during the covered period
• Payroll costs – owner-employees/self-employed
  - Eligible payroll costs can be no more than the lesser of 8/52 of 2019 compensation or $15,385 ($46,154) per individual in total across all businesses
  - Owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf
  - Schedule C filers are capped by owner compensation replacement
  - General partners are capped by their 2019 net earnings from self-employment multiplied by .9235
Interim Final Rule on Loan Forgiveness (cont.)

- Reductions to loan forgiveness
  - FTE reduction
  - Salary/hourly wage reduction
- FTE is calculated by dividing the average number of hours paid for each employee per week by 40, capping the quotient at 1.0
- Borrower can elect to use actual quotient or 0.5 for each part time employee
• Nonpayroll costs
  - Must be paid during the covered period; or
  - Incurred during the covered period and paid on or before the next regular billing date
  - Advance payments of interest on mortgage obligations are not eligible for loan forgiveness
Loan reduction exemptions

- For decreases in FTEs between February 15, 2020 and April 26, 2020, a borrower can:
  - Re-hire to February 15 levels (statutory)
  - Restore wages to February 15 levels (statutory)
  - Exclude the following:
    - Rejected rehire offers (IFR)
    - Voluntary departures (IFR)
    - Voluntary reductions in hours (IFR)
    - Individuals terminated for cause (IFR)
Loan reduction exemptions

• For decreases in FTEs between February 15, 2020 and December 31, 2020, a borrower can document inability to:
  - Re-hire/hire employees (PPPFA)
  - Return business activity to pre-February 15, 2020 level (PPPFA)

• Uncertainties
  - What efforts are required for re-hire/hire exemption?
  - How is “business activity” defined?
  - Over what period is it measured?
  - What are documentation requirements?
Loan forgiveness calculation (high-level)

Original Loan Amount

Baseline Forgiveness Amount

- 25% Pay Reduction Haircut

Preliminary Forgiveness Amount

Preliminary Forgiveness Amount

x FTE "Haircut" Ratio

Loan Forgiveness Amount

← Qualifying expenses during "covered period"

← Did employees make 75% of average weekly compensation?

← What percentage of employees did we retain?

← Amount also reduces tax expenses
Example

• Assumptions
  - Average payroll for twelve months - $1m
  - Average health insurance for 12 months - $200k
  - Monthly rent / utilities / mortgage interest - $100k
  - Average FTEs during post-loan period – 160
  - Average FTEs during pre-COVID 19 period – 200

• Loan amount
  - 2.5x payroll of $1m = $2.5m
  - 2.5x health insurance of $200k = $500k
  - Total loan amount = $3m
Example (cont.)

• Baseline loan forgiveness
  - 24 weeks of payroll – $5,538,462 ($1,000,000*12/52*24)
  - 24 weeks of health insurance - $1,107,692 ($200,000*12/52*24)
  - 24 weeks of rent / mortgage int./ utilities - $553,846

• Baseline loan forgiveness = $7,200,000
  - Loan amount of $3m
Example (cont.)

- 25% pay reduction haircut
  - Assumed no impact

- FTE haircut
  - FTEs during eight week period / FTE during pre-COVID
  - 160 / 200 = 80%
  - Preliminary forgiveness X FTE ratio
  - 80% x $7,200,000 = $5,760,000
Example (cont.)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Loan Amount</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Baseline Forgiveness Amount</td>
<td>7,200,000</td>
</tr>
<tr>
<td>25% Pay Reduction Haircut</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted Forgiveness Amount</td>
<td>7,200,000</td>
</tr>
<tr>
<td>FTE &quot;Haircut&quot; Ratio</td>
<td>80%</td>
</tr>
<tr>
<td>Preliminary Loan Forgiveness Amount</td>
<td>5,760,000</td>
</tr>
<tr>
<td>Reduction for 40% Limit on Non-payroll Costs</td>
<td>-</td>
</tr>
<tr>
<td>Final Loan Forgiveness Amount</td>
<td>3,000,000 *</td>
</tr>
<tr>
<td>Loan Amount Forgiven</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Tax Cost of Lost Deductions</td>
<td>(1,050,000)</td>
</tr>
<tr>
<td>Net Cash Flow Benefit of PPP</td>
<td>1,950,000</td>
</tr>
</tbody>
</table>
How have discussions changed after the new legislation?

• Revisit decisions made to maximize loan forgiveness
  - Retention or plans to rehire
  - Furlough and/or workforce reduction decisions
  - Acceleration of certain costs/expenditures
  - Balancing forgiveness analysis with business decisions
• Consideration of 8 vs. 24 week period
• Revisit loan amount
• Apply for a loan?
“Breakeven” between FTE and Compensation Reductions

<table>
<thead>
<tr>
<th></th>
<th>FTE Reduction</th>
<th>Compensation Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly payroll</td>
<td>100,000</td>
<td>60,069</td>
</tr>
<tr>
<td>Annual payroll</td>
<td>5,200,000</td>
<td>3,123,611</td>
</tr>
<tr>
<td>PPP Loan Amount</td>
<td>1,083,333</td>
<td>1,083,333</td>
</tr>
<tr>
<td>FTEs - Covered Period</td>
<td>67</td>
<td>100</td>
</tr>
<tr>
<td>FTEs - Pre-Covid 19 Period</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>FTE Ratio</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Payroll in 24-week Covered Period</td>
<td>1,612,451</td>
<td>1,441,667</td>
</tr>
<tr>
<td>Less &gt; 25% Paycut Reduction</td>
<td>-</td>
<td>(358,334)</td>
</tr>
<tr>
<td>Preliminary Forgiveness Amount</td>
<td>1,612,451</td>
<td>1,083,333</td>
</tr>
<tr>
<td>Times FTE Ratio</td>
<td>67%</td>
<td>100%</td>
</tr>
<tr>
<td>Forgiveness Amount</td>
<td>1,083,333</td>
<td>1,083,333</td>
</tr>
</tbody>
</table>
Thank you!

For more information on these topics and more, visit our Coronavirus Resource Center, updated on a daily basis.
THANK YOU FOR YOUR TIME AND ATTENTION