

Roadmap to SBA PPP Loan Forgiveness

Origin: Receipt of SBA PPP Loan

Destination: Loan Forgiveness

CHOATE

1

From the Start, Ensure Proper Recordkeeping

- When your business submits its forgiveness application, you will be required to provide documentation about how your loan proceeds were used.
- Consider opening a separate bank account strictly for your PPP loan funds and asking your lender if it has specific tracking requirements.
- Applications for forgiveness, including all of those for loans of \$2 million or more, will be scrutinized by the SBA.



2

Spend Loan Proceeds Only on Forgivable Expenses

- Only the following payments qualify for forgiveness and only if made during the first 8 weeks your loan is outstanding:
 - salaries, wages, tips and benefits for employees (during the life of the loan, at least 75% of loan proceeds must be spent on this category and maximum loan forgiveness is 133% of the amount spent on this category in the first 8 weeks of the loan),
 - interest on mortgage obligations incurred before February 15, 2020,
 - rent payments on lease agreements in effect before February 15, 2020, and
 - utility payments under agreements dated before February 15, 2020.
- There are other permitted uses of the loan (e.g., interest on debt other than mortgages) but these don't qualify for forgiveness.

3

Maintain FTE Headcount and Satisfy Salary Requirements

- Forgiveness will be reduced dollar for dollar for any compensation reductions of 25% or greater in the salaries of employees making less than \$100,000 annually, during the first 8 weeks of your loan compared to the most recent prior quarter.
- Forgiveness eligibility will also be reduced proportionately for any reduction in FTE average monthly headcount, during the first 8 weeks of your loan compared to your business's reference period.
- Your reference period can be either (1) January 1, 2020 to February 29, 2020 or (2) February 15, 2019 to June 30, 2019 (you get to choose). Seasonal businesses must use the 2019 period.



4

If Reductions Were Made, Take Advantage of the Grace Period

If your business did reduce compensation or headcount, full loan forgiveness is still possible if you eliminate the reductions by June 30, 2020.

DETOUR

5

Apply to have the Loan Forgiven

- Contact your PPP lender to find out about its specific processes and requirements for applying for loan forgiveness.
- Prepare to deliver records showing that you used your loan proceeds for forgivable expenses – have at hand copies of payroll tax filings and invoices for rent or utilities.
- The CARES Act requires lenders to respond to forgiveness requests within 60 days – but it is still possible for there to be delays.

Loan Forgiveness

For more information about the Paycheck Protection Program, please contact a member of Choate's Private Equity Team.

CHOATE