

U.S. CHAMBER OF COMMERCE



# NAVIGATING THE PPP LOAN FORGIVENESS PROCESS

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# OVERVIEW

Under the Paycheck Protection Program (PPP) created by the CARES Act, loans may be forgiven if borrowers use the proceeds to maintain their payrolls and pay other specified expenses.

The Treasury Department and Small Business Administration recently released the application form and instructions for loan forgiveness.

Remember, PPP borrowers must apply for loan forgiveness with the lender that processed the loan.

# OVERVIEW

## PPP Loans as of 6/30

- 4,885,388 loans
- \$521,483,817,756 in approved loans
- 5,461 lenders
- \$107,000 average loan amount

## Oregon PPP Loans

- 62,769 loans
- \$6,978,512,390

# QUESTIONS WE'LL ANSWER TODAY

- ▶ How much of my PPP loan will be forgiven?
- ▶ What are the repayment terms for any loan amounts **not** forgiven?
- ▶ What are the record keeping requirements?

## PART I:

# How much will be FORGIVEN?



The process to calculate the amount of loan forgiveness requires three steps:

- 1** Determine the maximum amount of possible loan forgiveness based on the borrower's expenditures during the 24 weeks after the loan is made;
- 2** Determine the amount, if any, by which the maximum loan forgiveness will be reduced because of reduced employment or reduced salaries and wages; and
- 3** Apply the 60% rule that requires that at least 60% of eligible loan forgiveness expenses go towards payroll costs.

STEP

1

# Determine the maximum amount of possible loan forgiveness

1A: Calculate Expenses Qualifying for Loan Forgiveness:

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**Payroll Expenses + Specified Non-Payroll Expenses**

Eligible Non-Payroll Expenses Include

- Mortgage interest payments
- Renter lease payments
- Utility payments

STEP

1

# Determine the maximum amount of possible loan forgiveness

## 1B: Identify Your 24-Week Period

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- The 24 weeks (168 days) beginning on the day the PPP loan was disbursed or
- For borrowers with a biweekly (or more frequent) payroll schedule, the 24 weeks (168 days) beginning on the first day of the first pay period following the PPP loan disbursement.

STEP

**2**

## Determine the amount (if any) by which the maximum loan forgiveness will be reduced

**2A.** Did you reduce salaries or wages by more than 25%?  
**If yes...**

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For employees who earned \$100,000 or less in 2019 (or were not employed by the borrower in 2019), the borrower's loan forgiveness will be reduced for each employee whose average pay (salary or hourly wage) during the 24-week period is less than 75% of their average pay from the full quarter prior to the 24-week period.

The amount of the reduction in loan forgiveness is based on the amount of the reduction in pay.

STEP

**2**

## Determine the amount (if any) by which the maximum loan forgiveness will be reduced

**2B.** Did you reduce your average number of employees?  
**If yes...**

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The borrower's loan forgiveness will be reduced if the average number of weekly full-time equivalent employees (FTEs) during the 24-week period is less than the average number of FTEs during the borrower's chosen reference period. Borrowers can choose between the following reference periods:

- **February 15 to June 30, 2019,**
- **January 1 to February 29, 2020,** or
- In the case of a seasonal employer a consecutive **12-week** period between **May 1 and September 15, 2019**

## EXCEPTIONS:

Borrowers will not be penalized for any FTE reductions if either of the following occurred:

- The borrower made a good-faith, written offer to rehire the employee during 24-week period that was rejected by the employee
- The employee was fired for cause, voluntarily resigned, or voluntarily requested a reductions in hours

STEP

2

## Determine the amount (if any) by which the maximum loan forgiveness will be reduced

### SAFE HARBOR NOTE

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Borrowers can avoid having their loan forgiveness amount reduced if they restore an employee's pay. Specifically, if the employee's annual salary or hourly wage on December 31, 2020 is equal to or greater than their annual salary or hourly wage on February 15, 2020.

Similarly, there is no reduction in the forgivable loan amount for borrowers who reduced their FTEs during the period beginning on February 15 and ending on April 26, 2020, but who by no later than December 31, 2020 restored the FTEs to the level that existed on February 15.

STEP

3

## Apply the 60% payroll rule

A borrower's maximum loan amount could also be reduced if the borrower's eligible non-payroll expenses exceed 40% of the total eligible expenses.

The maximum eligible loan forgiveness is payroll expenses divided by 0.60.

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**EXAMPLE:** If your payroll expenses for the 24-week period equal \$60,000, your loan forgiveness cannot exceed \$100,000. Any more than \$100,000 would mean your non-payroll expenses represent more than 40 percent of the total forgiveness amount.

# COMPLETING THE CALCULATION...

**Borrowers' loan forgiveness will equal the smallest of the following:**

- 1** Your PPP loan amount

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- 2** The maximum loan forgiveness amount from Step 1 less any reductions from Step 2

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- 3** The maximum loan forgiveness amount where eligible payroll expenses equals or exceeds 60% of the total forgiveness (i.e. your eligible payroll expenses  $\div$  0.60)

## **PART II:**

# **What happens to loan amounts NOT FORGIVEN?**

For any loan amounts not forgiven, the original loan terms—five-year maximum loan at 1% interest rate with payments deferred for the first six months—will apply.

There are no prepayment penalties or fees.

## PART III:

# What are the record keeping REQUIREMENTS?

### Payroll Documents

- Bank account statement or third-party payroll service provider reports documenting cash compensation paid to employees
- Tax forms or equivalent third-party payroll service provider reports for periods overlapping with the 24-week period for: (1) payroll tax filings (typically form 941), and (w) state quarterly wage reporting and unemployment insurance tax filings, and
- Payment receipts, cancelled checks, or account statements documenting payment of employer contributions to employee health insurance and retirement plan.

## Full-Time Employees (FTEs):

- Documentation showing the number of FTEs for the reference period from Step 2. Documents may include payroll tax filings (typically Form 941) and state quarterly wage reporting and unemployment insurance tax filings.

## Nonpayroll Expenses:

- Business mortgage interest payment: amortization schedule and cancelled checks or lender account statements from February 2020 and covering the 24-week period.
- Business rent and lease payments: Copy of current lease and receipts or cancelled checks or lessor account statements from February 2020 and covering the 24-week period.
- Business utility payments: Copy of invoices from February 2020 and the 24-week period and receipts, cancelled checks, or account statements.



For a step-by-step guide to PPP forgiveness, visit [uschamber.com/PPPforgiveness](https://uschamber.com/PPPforgiveness)

For more small business guides and resources, visit [uschamber.com/save-small-business](https://uschamber.com/save-small-business)

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