

**TO ERR IS HUMAN,
TO FORGIVE, DIVINE**

———— THE PAYCHECK ————
PROTECTION PROGRAM



SS4BE

SERVICES & SOLUTIONS FOR BUSINESS

HOW DID WE GET HERE?

Given that the goal was to inject capital into the economy through a jobs preserving program, the PPP program was clearly successful. \$521 billion has funded as of June 30 and in a spectacularly short period of time. To put that into perspective, Chase, BofA, Citi and Wells had a combined total loan increase of \$32.8 billion from 2018 to 2019. Fifteen times that amount was done in a period of a little over two months. In the words of many line officers, "Almost all of our customers applied for a loan on the same day." Now it is up to those same line officers to process the applications that will forgive all of that debt.

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WHAT HAPPENS NOW?

That is going to be the job of 5,461 financial entities over the next 18 months as they are set to forgive 4,885,388 PPP loans as of June 30. The good news is that unlike the actual loan itself, when all of the bank's customers applied for a loan at the same time, the forgiveness process will be drawn out over the next 18 months, going through the end of 2021 and into early 2022. The bad news is that the forgiveness application, instructions and certifications went from four pages to eleven. This seems to fall under the adage of "Give the government more time and they'll make anything more complicated".

The Paycheck Protection Program application was brilliant in its simplicity: page 1 was the application, page 2 was the acknowledgements and certifications, page 3 had the instructions and page 4 had the mandated government disclaimers. The only financial information required from the borrower on the application was the borrower's monthly payroll expenses. The PPP Loan Forgiveness Application Form 3508 is making up for that simplicity with an EZ application that is 7 pages long and a standard application that is 11 pages long. The question is, how much of that application are the borrowers going to dig through before they come into their bank branch, give it to the account officer and ask them to complete it?

BORROWER RESPONSIBILITIES

- ▶ Calculate the average salary or wage for each employee for the covered period
- ▶ Calculate the average salary or wage for each employee for one of the following base periods:
 - February 15 to June 30, 2019
 - January 1 to March 31, 2020
 - January 1 to February 29, 2020
- ▶ Determine which employees were earning \$100,000 on an annualized basis and capping the salary forgiveness
- ▶ Add up and document all eligible cash compensation
- ▶ Add up and document all eligible non-cash compensation
- ▶ Determine if there was any reduction in employees or average paid hours
- ▶ Calculate the FTE Reduction Safe Harbor 1, if necessary, for the long form
- ▶ Complete PPP Schedule A, if necessary, for the long form
- ▶ Complete the Loan Forgiveness Calculation Form

**AND THAT
DOES NOT
DELVE INTO
THE DETAILS...
WHAT COULD
GO WRONG?!**

Who gets this done? The online lenders will not be doing it. Fiserv has put together a program that helps borrowers with a portal, but who calculates the numbers? The initial reaction from the line officer at every bank will be to guide the borrower through completing the form to the best of their ability but this presents a number of hazards. First is that the guidance specifically states that the borrower should complete the form. Per the most recent interim final rule (RIN 3245-AH52): "To receive loan forgiveness, a borrower must complete and submit the Loan Forgiveness Application...". Second is that it is never a good idea to "assist" with a customer filling out a bank form that the borrower is certifying to be true and correct. So what is the bank to do when the borrower comes to them with the reports, documentation and a partially filled application, and drops it on the loan officer's desk?

THE PROBLEM CONTINUES...

Before we answer that, companies with more than 50 employees will have a controller to work through the numbers and the options. It will be the companies with less than 50 employees that will struggle to complete the application accurately and will be looking to the bank for a solution. Given the financial nature, the most straightforward answer from the bank will be to refer the work to the borrower's CPA. However, the CPA firm may not want to take that liability and if they do, the fee may be significant, and rightfully so. The CPA may not even have the capacity to get it done and refuse it outright.

It is likely that each bank will have its own format that credit administration or risk management will have put together so it will be to the lender's advantage to proactively provide its PPP borrowers a checklist and a format for how the borrower is to present the forgiveness application. They can partner with a CPA firm, but who picks up the tab for that? There are also firms that are being formed specifically for this purpose, so some homework should be done so that the borrower has a choice.

Given that it is the borrower, or borrower's representative, that must complete the application, it would be best to have the borrower either work through the application on their own or work through an outside vendor that will package it specifically to the lender's requirements.

HOW WE CAN HELP

That is where PPP Loan Services comes into play. We can work directly with the lender or the borrower. PPP Loan Services will collect all the necessary documentation, make the forgiveness calculations per SBA guidelines and send the completed package back to the borrower in the format they designate. When the borrower gets our package, all they do is perform the certifications, sign the application, and send it in to the bank.