



Insights and Observations on Recent PPP Originations and New Forgiveness Forms

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Overview

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Overview of New PPP Lending

- **Consolidated Appropriations Act**
- **New, limited, opportunities for additional first draw loans**
- **Second draw loans for organizations with a 25% or more decline in gross receipts**
- **Bigger loans for Food and Accommodation Industry**



Overview of Revised Forgiveness Rules

- **Updates for all loans (regardless of size)**
 - Additional qualified expenses
 - Flexible covered period
 - Hold harmless
 - Clarity of tax implications



Overview of Revised Forgiveness Rules

- **Updates for Loans \$150,000 or less**
- **Revised Form 3508S**
 - Provide NAICS Code
 - Covered Period still required
 - Amount spent on payroll costs
 - No need to submit documentation to the lender



Polling Question #1

- **Compared to 1st draw PPP loan volume, what is your expectation for the volume of 2nd draw PPP loans?**
 - A. Less than 40%
 - B. 40 to 59%
 - C. 60 to 80%
 - D. More than 80%





2483 Revised Form 2483SD Form



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Forms

- **2483 Revised**

- Now asks for year of establishment
- No PO box addresses allowed
- More options for purpose of the loan
- Modest changes to certifications

- **2483SD**

- Second Draw
- Reduction of Gross Receipts
- PPP SBA First Draw Number, but not 1st Draw Amount
- Slightly different questions and certifications



Observations on Applications for 1st Draw

- **Greatest impact on:**
 - Farmers and ranchers
 - Not for profit
 - Partnerships

Observations on PPP 1st Draw for Farmers

- **Impacts farmers and ranchers**
 - Based on gross receipts instead of only net income
 - Farmers that had losses or small profits now qualify for larger loans
 - Up to \$20,833 plus 2.5 months of wages paid
- **Observations**
 - Gross receipts are different than gross revenue
 - Complexity of revenue presentation in Schedule F
 - Interaction with Schedule C and partnerships
- **Examples**



Observations on PPP 1st Draw for Not For Profit

- **501(c)(6) nonprofits now qualify**
 - Organizations that promote a common business interest
 - Trade associations
 - Business league
 - Chambers of commerce
 - Real estate boards
 - Boards of trade



Observations on PPP 1st Draw for Not For Profit

- **More complex organizational structures**
 - Affiliates
 - Employee counts and foreign employees
- **Gross receipts are harder to define**
 - Affiliate rules
 - Intercompany transactions
 - Sales of investments
 - Contributions of investments and their subsequent sale
- **Limits on lobbying activities**



Polling Question #2

- **Of all the 2nd draw PPP loans that you expect to originate, what percentage of borrowers have already applied?**
 - A. Less than 25%
 - B. 25 to 49%
 - C. 50 to 75%
 - D. More than 75%



Observations on 2nd Draw Loans

- **What is different about originating 2nd draw loans?**
 - Lower \$2,000,000 limit on maximum loan amount
 - Generally, limit of 300 employees
 - 25% or greater decline in gross receipts in any 2020 quarter compared to the same quarter of 2019
 - ◇ Can use annual period instead of quarterly test



Observations on 2nd Draw Loans

- **What challenges from 1st draw loans are still occurring?**
 - Net pay compared to gross pay
 - Failing to cap earnings at \$100,000 per individual
 - Draws compared to Schedule C earnings
 - Partnership eligibility
 - Multiple Schedule C's
 - Owning a Schedule F, Schedule C and ownership of a partnership
 - Mixing passive income partnerships and Schedule C earnings
 - Fringe benefits for S Corporation owners and partners
 - Math errors



Observations on 2nd Draw Loans

- **What challenges from 1st draw loans are still occurring? (continued)**
 - Attention to detail
 - Providing required supporting documents
 - Amounts claimed don't match supporting documents
 - Claiming FICA and FUTA as eligible payroll costs
 - Seasonal
 - Pastor earnings
 - Independent contractors



Observations on 2nd Draw Loans

- **New challenges borrowers are experiencing when applying**
 - Documenting 25% reduction
 - New businesses
 - Change of ownership in 2020



Polling Question #3

- **In your estimation, what percentage of 1st draw loan recipients have experienced a 25% quarterly reduction in gross receipts and are, therefore, eligible for a 2nd draw loan?**
 - A. Less than 33%
 - B. 33 to 66%
 - C. More than 66%
 - D. I don't have an estimate



Observations on 2nd Draw Loans

- **Finding underwriting errors on 1st draw loans**
 - Borrowers who didn't qualify
 - Borrowers who received more than they qualified for
 - Impact on 1st draw loan forgiveness
 - See evolution of understanding of the rules
 - Be prepared if it happens to you
- **Most lenders are requesting documentation of decline in gross receipts**



Other Observations

- **More borrowers are using 2019 than 2020 payroll**
- **Few borrowers are claiming employer-paid fringe benefit costs**





New 3508S Forgiveness Form

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3508S PPP Loan Forgiveness Application

- **Applies to Loans of \$150,000 or less**
 - Up from \$50,000 or less
- **Changes from prior version**
 - NAICS code
 - 1st or 2nd draw PPP loan
 - Covered Period
 - Affiliate question
 - Amount of loan spent on payroll costs
 - Fewer certifications



3508S PPP Loan Forgiveness Application

- **No requirement for borrower to submit documents**
- **No requirement for lenders to review documents**
- **Borrower must keep documentation for:**
 - 4 years for payroll
 - 3 years for all other records



3508S PPP Loan Forgiveness Application

- **Observations**

- Improvement for lenders and borrowers
- Numerous examples of borrowers who will receive 100% forgiveness, but they struggle to provide the required documentation to move the application forward
- The EZ form proved challenging for many borrowers
- Still concerned about the need to show the Covered Period
 - ◇ Starts the day the loan was disbursed
 - ◇ Exactly 56 or 168 days long
 - ◇ Source of frustrating errors



3508S PPP Loan Forgiveness Application

- **Should a lender still accept the 3508EZ or prior version of the 3508S for loans \$150,000 or less?**
- **Is a lender required to accept a 3508EZ or 3508S for loans of \$150,000 or less?**



3508S PPP Loan Forgiveness Application

- **Automation opportunities**
 - Lender has most of the data
 - Prepopulate the 3508S
 - Borrower need to supply the following information
 - ◇ Choice of 8- or 24-week Covered Period
 - ◇ Number of employees
 - ◇ Amount spent on payroll costs
 - ◇ Title
 - Avoid data input errors and Covered Period errors
 - DocuSign the form including initials
 - Transmit directly to the SBA



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