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Paycheck Protection Program (PPP) Loan Q&A for Bankers

The following is a Q&A intended to provide bankers with general information about the PPP. Bankers should monitor the release of official guidance and review the text of the CARES Act for updated and more specific information.

Who can get a loan?
Businesses, including self-employed and independent contractors, Nonprofits (501(c)(3)), veterans' organizations (501(c)(19)) and tribal business concerns, with less than 500 employees.

Who can make a loan?
Banks already approved to make SBA 7(a) loans are in a position to begin making loans once form documents are released by the Administration. Other insured financial institutions will also be allowed to apply for eligibility on an expedited basis. An application form is forthcoming. Non-bank lenders will also be allowed to apply for eligibility.

What is the maximum loan amount?
Up to $10 million but not more than 2.5 times average monthly payroll, generally measured over the 12 months prior to the loan being made.

How much will be forgiven?
The principle balance of the loan will be reduced by an amount equal to all expenses for payroll, utilities, and rent or mortgage interest, during the 8-week period after the loan is granted. Any remaining principle balance will be amortized over a period of up to 10 years. However, the first payment will be deferred for six months.

How much is the interest rate?
Remaining principle balance after loan forgiveness will be charged interest not to exceed 4% but will vary depending on the length of term (up to 10 years).

Who funds the loan?
The lender funds the loan. It may sell the loan to the SBA based upon an estimated forgiveness amount. However, the loan will carry a 0% risk-weighting, thereby negating the impact on risk-based capital ratios if the bank holds the loan on its balance sheet (though liquidity and leverage ratios would be impacted by retaining the loan).

What documentation must be provided by the borrower?
The guidelines have not yet been published, but it is clear they will need to establish an average monthly payroll over the last twelve months. This information will need to be carefully detailed, including payments for insurance and retirement benefits, among other items. The borrower will also need to be able to separately identify compensation paid to individuals that exceeds $100,000. The remaining documentation required, if any, has not yet been established

by the Administration. However, if your potential borrowers want to begin gathering documents now, in addition to payroll information, they will want to ensure that their financial records allow them to quickly identify payments made for payroll and benefits, rent, mortgage interest, and utilities. Prior tax returns may also be beneficial. Again, documenting payroll in detail will be crucial.

What limitations typical of some SBA loans are waived for this program?
There is no requirement for collateral or personal guarantees. In addition, borrowers will not be required to show that they cannot obtain financing elsewhere.

What about borrowers that have already laid off employees?
Those borrowers will be given credit for loan forgiveness under the program for costs related to rehired employees given the goal of keeping Americans employed during this time.

What if borrowers still need to lay off employees even after receipt of the funding?
The amount of loan forgiveness is subject to reduction for layoffs and reductions in pay for employees with annualized compensation of $100,000 or less.

Does a business have to be negatively impacted by the COVID-19 virus in order to get a loan?
The business will be required to attest that the uncertainty related to the COVID-19 virus has made the loan request necessary to support the ongoing operations of the business.

EXAMPLE:
A small business with fewer than 500 employees and an average monthly payroll of $150,000 over the last twelve months applies for a PPP loan with its bank. After attesting that the COVID-19 virus has impacted its business operations and submitting other required documentation, the business receives a loan of $375,000. Over the next 8 weeks it is determined that the business has incurred $350,000 in eligible payroll, rent and utilities expenses. The principal balance of the loan is reduced to $25,000 and amortized over a period of up to 10 years at an interest rate not to exceed 4%. The program prohibits SBA from charging fees to the lender and the borrower.

How does the loan forgiveness work?
The SBA submits payment to the lender as if a "normal" SBA loan had defaulted and the SBA were paying on its guarantee. The payment is made within 90 days of submission and acceptance of the documentation needed to establish forgiveness, during which time interest continues to accrue.

What risks should banks consider in implementing this program for its borrowers?
The normal guidelines for implementing a new government-guaranteed lending program apply, even though the administrative burdens of this program are intended to be greatly lessened. Therefore, banks should consider the following. While there is clearly an expectation that banks will generally facilitate this program, there is no requirement that all banks participate.

- Are my operations situated at this time in a manner that will allow me to process applications and fund loans with the expected speed and without undue risk?
- Can the bank quickly develop and implement appropriate internal procedures to originate, then service, these loans?
- From a health and safety standpoint, am I in a position to not only accept applications but also to provide guidance to borrowers on the process (i.e., do I have a call center or other virtual means to connect with borrowers)?
- Am I comfortable with the process for collecting a guarantee from the SBA?
- Because the program is established on an expedited basis, there is elevated fraud risk. Do I have safeguards in place to address those risks?