Your PPP Loan Was Approved - Now What?

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The recently enacted CARES Act, inclusive of the wildly popular Paycheck Protection Program (PPP), is the largest stimulus package since FDR's New Deal.

In our government's effort to get much needed funds into the hands of small businesses as expeditiously as possible, the PPP was rolled out somewhat prematurely. As a result, the application process, which opened April 3, 2020 and has been executed since then by credit unions, large financial institutions and non-bank lenders, was clunky, filled with confusion and caused more anxiety for business owners already reeling from major businesses disruptions. It was much like having both lender and borrower take delivery of a motor vehicle before final installation of headlights and bumpers.

At this point, some PPP applicants have already received funding, while many others have had their applications approved and await funding in the next 10 days or so. But no sooner than all of their application questions were answered, new questions arose for these borrowers – most importantly, Now what?

While a low-interest loan with no payments for six months is great, free money is even better. The PPP provides for funding to small businesses in the form of a loan based on 2.5 times average monthly payroll up to a maximum of $10 million. The loan may become forgivable if the business spends the funds on payroll and certain facility costs and maintains headcount and payroll during the 8-week period after the loan is funded.

Unfortunately, like the application process, we again await guidelines from the U.S. Small Business Administration (SBA). These guidelines are expected by April 26, 2020 and will give lenders and borrowers the specifics of how borrowers can apply for and receive forgiveness of the PPP loan proceeds.

Business owners who have been approved and/or received PPP funding can take several steps during this waiting period to prepare for the general requirements of the CARES Act and position their companies for maximum loan forgiveness:

Calculate your base period FTEs and manage workforce movement before April 26th and upon loan funding

The CARES Act specified a borrower should compare their average monthly FTEs during the 8-week period after the loan funds to the average monthly FTEs in one of two periods. Borrowers may choose either: (1) January and February 2020 or (2) February 15 – June 30, 2019. (Hint: pick the lower base.)

For example, if 8-week FTEs is 90 and base period is 100, a borrower can expect to receive forgiveness of 90 percent of the cost incurred during the 8-week period after the loan funds.

While final guidelines may be executed slightly differently from what is specified in the CARES Act, borrowers should calculate the baseline FTEs now and manage workforce movement according to those baselines until further guidance is released.

Accumulate contemporaneous documentation

Many borrowers have asked, should I maintain a separate bank account for PPP funds and expenses? While this may be best practice and the easiest way to achieve contemporaneous documentation, a separate account may not be practicable in all cases. If it can be done, do it. If it is not practicable, the most critical issue is the documentation of expenses incurred during your 8-week period.

Borrowers should accumulate support for 8-week expenses incurred on payroll and non-payroll costs in a contemporaneous fashion. That evidence should include payroll registers, bank records, invoices for mortgage interest, rent and utilities and any associated agreements. Those rental and mortgage agreements are required to be in place as of February 15, 2020, so borrowers can accumulate those agreements right now.

Forecast Your Expenses

It is critical to forecast your 8-week expenses to ensure non-payroll costs do not exceed 25% of the total pool of costs.Additionally, forecasting will allow a borrower to make adjustments necessary to maximize the loan forgiveness amount.

Be cognizant of other stimulus available

PPP was one of many programs in the CARES Act that is geared at helping small businesses. The CARES Act also made several rich tax incentives available, as well as other loan programs, including the Federal Reserve's recent Main Street Loan Programs, which may also be available to PPP borrowers. Additionally, many State and Local government programs have been made available to assist small businesses during this difficult time. It is important that small business work with their advisors to identify all programs available.

Work with advisors and bankers to monitor new developments

What is clear, is that the rules for loan forgiveness are a bit of a moving target at this point. We have the CARES Act, which is somewhat explicit with respect to loan forgiveness, but as we have seen with loan sizing and other guidelines of the PPP, subsequent guidance may cause differences in application. There has been discussion of a floating 8-week period and further limitations on non-payroll costs, for example. Several industries that may not be able to bring their workforce back to 100 percent, due to forced closures, are pressuring Washington for relief in these areas. It is important for borrowers to maintain a dialogue with their banker and advisors to monitor new developments in real time and react quickly, as necessary.

Tune in to Grassi's Loan Forgiveness webinar on April 16, 2020 to learn more about positioning your business for maximum loan forgiveness. Click here to register.

For more information, contact your Grassi advisor or our Emergency Loan Consultants on our Crisis Response & Recovery hotline at 212.223.6216 or response@grassicpas.com.

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