

## GUIDANCE FOR PPP LOAN FORGIVENESS

*This guide is provided as a courtesy based on current information and is for informational purposes only. It should not be relied upon as legal, business, or tax advice. Future Small Business Administration (SBA) or Treasury guidance and rules may significantly impact this information. Please check back for updates as they become available.*

This guide contains the following sections:

1. [Limitations on Amount of Eligible Loan Forgiveness](#)
2. [Definitions - Covered Period, Payroll Costs and Nonpayroll Costs](#)
3. [General Process to Obtain Loan Forgiveness](#)
4. [Understanding the Paycheck Protection Program Loan Forgiveness Application](#)
5. [PPP Schedule A Worksheet](#)
  - a. [Reduction in Loan Forgiveness Amount Due to Reduction in Number of Full-Time Equivalent \(FTE\) Employees](#)
    - i. [Examples of Reduction Due to Reduction in Number of FTE Employees](#)
  - b. [FTE Reduction Exemptions](#)
  - c. [Reduction in Loan Forgiveness Amount Due to Reduction in Salaries or Wages](#)
    - i. [Examples of Reduction Due to Reduction Salaries or Wages](#)
6. [PPP Schedule A](#)
7. [PPP Loan Forgiveness Calculation Form](#)
8. [FAQ Section](#)
  - a. [General FAQs](#)
  - b. [Reduction in Number of FTE FAQs](#)
  - c. [Reduction in Salary or Wages FAQs](#)
9. [Information for Self-Employed Individuals Who Have No Employees](#)

## Paycheck Protection Program Loan Forgiveness Application

On Friday, May 15, the SBA released their first version of SBA Form 3580 the Paycheck Protection Program Loan Forgiveness Application. *We anticipate additional revisions and guidance to be issued throughout the next several weeks that may impact you.* Therefore, we do not encourage completing this form until final revisions are received. However, there are definitions you should understand and steps you should take to help you prepare for completion of the PPP Loan Forgiveness Application, which we provide below in more detail.

## Limitations on Amount of Eligible Loan Forgiveness

The amount of loan forgiveness can be reduced due to the following:

- 1. At least 75% of the forgiveness amount must be used for payroll costs.** For example, if you received a PPP loan in the amount of \$150,000; however, you only used \$100,000 for Payroll Costs, the maximum amount of loan forgiveness would be \$133,333.33 (\$100,000 divided by .75). This is why it is very important for you to understand what qualifies (and does not qualify) as Payroll Costs, what Payroll Costs are paid or incurred, and for those employers with payrolls biweekly or more frequently, whether choosing the Alternative Payroll Covered Period is a good option for you.
- 2. You did not maintain employee levels (number of FTEs).** This is explained in detail in the PPP Schedule A Worksheet Section titled "[Reduction in Loan Forgiveness Amount Due to Reduction in Number of Full-Time Equivalent \(FTE\) Employees](#)"
- 3. You did not maintain employee compensation levels.** This is explained in detail in the PPP Schedule A Worksheet section titled "[Reduction in Loan Forgiveness Amount Due to Reduction in Salaries or Wages](#)".
- 4. Eligible Nonpayroll Costs cannot exceed 25% of the loan forgiveness amount.** If you utilized more than 25% of the funds for eligible Nonpayroll Costs (as defined further below), or if you utilized the funds for other costs that are not considered eligible Nonpayroll Costs, the amount of your loan forgiveness will be reduced.

## Definitions – Covered Period, Payroll Costs, Nonpayroll Costs

### Covered Period

In general, Payroll Costs paid or incurred during the eight-consecutive week (56 days) Covered Period are eligible for forgiveness. Borrowers may seek forgiveness for Payroll Costs for the eight weeks beginning on either:

1. The date of disbursement of your PPP loan proceeds; or
2. The first day of the first payroll cycle in the Covered Period (the "Alternative Payroll Covered Period").

### Payroll costs paid and payroll costs incurred.

Payroll costs are considered paid on the day that paychecks are distributed, or the Borrower originates an ACH credit transaction. Payroll costs incurred during the Borrower's last pay period of the Covered Period or the Alternative Payroll Covered Period are eligible for forgiveness if paid on or before the next regular payroll date. Payroll Costs are generally incurred on the day the employee's pay is earned (i.e., on the day the employee worked). For employees who are not performing work but are still on the borrower's payroll, payroll costs are incurred based on the schedule established by the borrower (typically, each day that the employee would have performed work).

### Alternative Payroll Covered Period

This is an option for Borrowers who have a payroll biweekly (every other week) or more frequently. It is for administrative convenience to allow you to begin your eight-week period on the first day of your first pay period following your PPP Loan Disbursement Date. For example, a borrower has a bi-weekly payroll schedule (every other week). The borrower's eight-week covered period begins on June 1 and ends on July 26. The first day of the borrower's first payroll cycle that starts in the covered period is June 7. The borrower may elect an alternative payroll covered period for payroll cost purposes that starts on June 7 and ends 55 days later (for a total of 56 days) on August 1. Payroll costs paid during this alternative payroll covered period are eligible for forgiveness. In addition, payroll costs incurred during this alternative payroll

covered period are eligible for forgiveness as long as they are paid on or before the first regular payroll date occurring after August 1. Payroll costs that were both paid and incurred during the covered period (or alternative payroll covered period) may only be counted once. This alternative period is for Payroll Costs only. If you choose the Alternative Payroll Covered Period, you continue to utilize the standard Covered Period for calculation of your Nonpayroll Costs. You are not required to use the Alternative Payroll Covered Period. We suggest you review both options to determine the eight-week period that is most beneficial for you to utilize for Payroll Costs.

### **Payroll Costs**

Payroll costs consist of compensation to employees (whose principal place of residence is the United States) in the form of salary, wages, commissions, or similar compensation; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); payment for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement; payment of state and local taxes assessed on compensation of employees; and for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.

The following are excluded from payroll costs:

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The cash compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
- Employer-paid payroll taxes.
- Qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).
- Payments to an independent contractor or sole proprietor (the independent contractor or sole proprietor may have obtained a loan under the PPP).

### **Nonpayroll Costs**

All eligible Nonpayroll Costs must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. Eligible Nonpayroll Costs cannot exceed 25% of the total forgiveness amount. Count Nonpayroll Costs that were both paid and incurred only once.

1. Interest payments on any mortgage obligation on real or personal property that was incurred before February 15, 2020 (but not any prepayment or payment of principal);
2. Payments on business rent obligations on real or personal property under a lease agreement in force before February 15, 2020; and
3. Business utility payments for the distribution of electricity, gas, water, transportation, telephone, or internet access for which the service began before February 15, 2020.

For example, a borrower's covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date. The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

## General Process to Obtain Loan Forgiveness

1. Union Bank will provide you a link to electronically submit your PPP Loan Forgiveness Application and required documentation.
2. We have up to 60 days from receipt of all required information to issue a decision to the SBA.
3. The SBA will, subject to any SBA review of the loan or loan application, remit the appropriate forgiveness amount to Union Bank, plus any interest accrued through the date of payment, not later than 90 days after we issue our decision to the SBA.
4. We will notify you of the forgiveness amount. If only a portion of the loan is forgiven, or the forgiveness request is denied, any remaining balance due on the loan must be repaid by the borrower on or before the two-year maturity of the loan.

## Understanding the PPP Loan Forgiveness Application

The Paycheck Protection Program Loan Forgiveness Application (SBA Form 3508) has the following sections:

- **Pages 1 through 4:** The general application form, including instructions. You must complete Schedule A first.
- **Pages 5 and 6:** Schedule A and Instructions for PPP Schedule A. You must complete the Schedule A Worksheet first (if you have employees).
- **Pages 7 through 9:** Schedule A Worksheet and Instructions (complete this first if you have employees).
- **Page 10:** Documentation you must submit with your application; and documentation you must retain. Please read through this carefully so you understand the documentation required.
- **Page 11:** Optional Borrower Demographic Information form.

### PPP Schedule A Worksheet

**If you have employees, you must complete the PPP Schedule A Worksheet first.**

#### *PPP Schedule A Worksheet Preparation Steps Including FTE Calculation*

1. **PPP Schedule A Worksheet:** At the time you apply for loan forgiveness, you will need to complete this worksheet or have documentation from your payroll software or payroll provider that contains this information. **\*UBT Suggestion: Work on developing a report you will be able to retain for your documentation that contains the information in the 'PPP Schedule A Worksheet' keeping in mind possible revisions to this schedule.** The information must include:
  - a. Employee's Name and last 4 digits of their SSN.
  - b. The sum of the cash compensation for each employee (see definition of 'Cash Compensation' on Page 7 of the Forgiveness Application) paid or incurred during the 8-week Covered Period or Alternative Payroll Covered Period.
  - c. Average FTE

In the PPP Schedule A Worksheet, Table 1 is designed for employees who have a Cash Compensation of \$100,000 or less per year. Table 2 is for employees with a Cash Compensation of more than \$100,000 per year. These are separated only for the purpose of the Reduction in Loan Forgiveness Amount Due to Reduction in Salaries or Wages, which is only applicable for employees with a Cash Compensation of \$100,000 or less per year.

**2. Average FTE:** To calculate the average full-time equivalency, for each employee paid during the Covered Period or the Alternative Payroll Covered Period, you must calculate the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. As an option, a simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used. The below example outlines both methods:

		Week Number								Weekly Avg.	FTE	Simplified Method FTE
		1	2	3	4	5	6	7	8			
Employee A	Hours Worked	20	25	20	30	27	20	30	25	24.6	0.6	0.5
Employee B		40	40	45	40	42	40	40	40	40.9	1.0	1.0
Employee C		38	42	40	40	35	42	42	42	40.1	1.0	1.0
Employee D		50	50	52	50	52	50	50	50	50.5	1.0	1.0
Employee E		38	38	36	36	34	35	40	35	36.5	0.9	0.5
Employee F		12	16	40	15	20	20	20	20	20.4	0.5	0.5
<b>FTE's</b>										<b>5.0</b>	<b>4.5</b>	

We suggest you calculate FTE utilizing both methods and determine which one is most beneficial for you to use. Once you determine how you will calculate FTE employees, you must use the same method consistently for all FTE calculations.

### Reduction in Loan Forgiveness Amount Due to Reduction in Number of Full-Time Equivalent (FTE) Employees

The amount of eligible loan forgiveness may be reduced if you have not maintained or rehired your number of FTE employees during the Covered Period or Alternative Payroll Covered Period. Below is an explanation of this reduction, and the information required on the PPP Schedule A Worksheet to document your calculations.

**Did you reduce the number of employees or the average paid hours of your employees between January 1, 2020 and the end of the Covered Period or Alternative Payroll Covered Period?**

- If no, this section is not applicable to you.
- If yes, review the section below which outlines Reduction in Loan Forgiveness Due to Reduction in Number of FTE Employees.

#### Examples of Reduction Due to Reduction in Number of FTE Employees

**1. FTE Reduction Safe Harbor Explanation:** If you had a reduction in FTE employees during the period beginning on February 15, 2020 and ending on April 26, 2020 and you eliminated the reduction in the number of FTE employees no later than June 30, 2020, there will not be a reduction in the amount eligible for forgiveness.

#### Example showing test being passed (no reduction in forgiveness applied)

Total FTE employees as of 2/15/2020 pay period	20	<i>Starting point</i>
Avg. monthly FTE employees 2/15/2020 – 4/26/2020	5	<i>FTEs decreased</i>
Total FTE employed as of 6/30/2020	20	<i>Test passed</i>

**Example showing test failed (reduction in forgiveness may apply, see #2)**

Total FTE employees as of 2/15/2020	20	<i>Starting point</i>
Avg. monthly FTE employees 2/15/2020 – 4/26/2020	5	<i>FTEs decreased</i>
Total FTE employed as of 6/30/2020	15	<i>Test failed</i>

**2. If the Safe Harbor test is not applicable to you (you failed the test above, and you had a reduction in workforce from 2/15/2020-4/26/2020 that you did not eliminate by 6/30/2020) the amount of loan forgiveness, in general, is reduced by the same percentage as the percentage of reduction in FTE employees. You must first select a reference period by selecting one of the following:**

- a. Your average number of FTE employees per month during the period beginning on February 15, 2019 and ending on June 30, 2019; **or**
- b. Your average number of FTE equivalent employees per month during the period beginning on January 1, 2020 and ending on February 29, 2020<sup>1</sup>.

Your FTE Reduction Quotient is determined by dividing the Total Average FTE employees during your Covered Period or Alternative Payroll Covered Period by the average number of FTE employees during your chosen reference period. For example, if you had 8 Total Average FTE employees during your Covered Period, and 10 Total Average FTE employees during your chosen reference period, your FTE Reduction Quotient is 80% (8 divided by 10).

See further examples below:

**Example showing reduction in amount of forgiveness**

Time period	Avg Number FTE	Percent of funds eligible for forgiveness
Covered/Alternative Payroll Covered Period	16	
2/15/2019-6/30/2019	22	72.7%
1/1/2020-2/29/2020	20	80%

*In the example above, choosing the dates of 1/1/2020-2/29/2020 would result in a 20% reduction of funds eligible for forgiveness due to FTE employee count*

**Example showing no reduction in amount of forgiveness**

Time period	Avg Number FTE	Percent of funds eligible for forgiveness
Covered/Alternative Payroll Covered Period	16	
2/15/2019-6/30/2019	16	100%
1/1/2020-2/29/2020	20	80%

*In the example above, choosing the dates of 2/15/2019-6/30/2019 would result in no reduction of funds eligible for forgiveness due to FTE employee count.*

<sup>1</sup> Seasonal employers may choose either of these two dates, or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

### ***FTE Reduction Exemptions***

Any FTE reductions due to the following will not reduce your loan forgiveness. **\*UBT Suggestion: Retain documentation during your Covered Period or Alternative Payroll Covered Period as applicable for the following FTE Reduction Exceptions:**

1. Any positions for which you made a good-faith, written offer to rehire an employee during the Covered Period or the Alternative Payroll Covered Period, which was rejected by the employee, and:
  - a. The offer was for the same salary or wages and same number of hours as earned by such employee in the last pay period prior to the separation or reduction in hours;
  - b. The offer was rejected by such employee;
  - c. The Borrower has maintained records documenting the offer and its rejection; and
  - d. The Borrower informed the applicable state unemployment insurance office of such employee's rejected offer of reemployment within 30 days of the employee's rejection of the offer.<sup>2</sup>
2. Any employee that was fired by cause, voluntarily resigned, or voluntarily requested and received a reduction of their hours.

Click here for [Reduction in Number of FTE FAQs](#)

### **Reduction in Loan Forgiveness Amount Due to Reduction in Salaries or Wages**

In addition to any reduction due to the number of FTE employees, the eligible amount of loan forgiveness amount may be reduced if you reduced salary or wages of any employee (applicable only for employees with salary/wage of \$100,000 or less per year).

**Did you reduce an employee's<sup>3</sup> salary or hourly wage during the Covered Period or Alternative Payroll Covered Period by more than 25% of that employee's salary or hourly wage (as compared to the first quarter of 2020)?**

- If no, this section is not applicable to you.
- If yes, review the section below.

### ***Examples of Reduction Due to Reduction Salaries or Wages***

1. **Exemption if employer has eliminated the reduction in the salary or wages of employees.** If you had a reduction in salary/wages for an employee during the period beginning on February 15, 2020 and ending on April 26, 2020 and you eliminated the reduction no later than June 30, 2020, there will not be a reduction in the amount eligible for forgiveness. See below for examples:

---

<sup>2</sup> Further information regarding how borrowers will report information concerned rejected rehire offers to state unemployment insurance offices will be provided on SBA's website.

<sup>3</sup> Only applicable if the employee's annualized cash compensation is \$100,000 or less.

**Example showing test being passed (no reduction in forgiveness applied)**

Annual Employee Salary as of 2/15/2020	\$40,000	<i>Starting point</i>
Annual Employee Salary 2/15/2020 – 4/26/2020	\$35,000	<i>Salary decrease</i>
Annual Employee Salary as of 6/30/2020	\$40,000	<i>Test passed</i>

**Example showing test failed (reduction in forgiveness may apply)**

Annual Employee Salary as of 2/15/2020	\$40,000	<i>Starting point</i>
Annual Employee Salary 2/15/2020 – 4/26/2020	\$30,000	<i>Salary decrease</i>
Annual Employee Salary as of 6/30/2020	\$35,000	<i>Test failed</i>

2. **If you failed the test above, and you had a reduction in the salary/wage of an employee<sup>4</sup> from 2/15/2020-4/26/2020 that you did not eliminate by 6/30/2020** in general, the amount of loan forgiveness shall be reduced by the amount of any reduction in total salary or wages of an employee (with an annual salary of \$100,000 or less) during the eight-week period that is in excess of 25% of the total salary or wages of the employee during the most recent full quarter during which the employee was employed before the covered period.

- **Example 1 – no reduction in amount of loan forgiveness:** Employee A’s annualized salary in Q1 of 2020 was \$52,000 (\$1,000 per week). During the eight-week period, Employee A’s annualized salary was \$41,600 (\$800 per week). Per the instructions on the bottom of Page 7 of the PPP Loan Forgiveness Application, conduct the following calculation:
  - \$41,600 divided by \$52,000 = 80%. There is no reduction in the amount of loan forgiveness for this employee, since the salary during the Covered Period (or Alternative Covered Period) was more than 75% of the salary for that employee in the 1<sup>st</sup> Quarter of 2020.
- **Example 2 – reduction in amount of loan forgiveness:** Employee B’s annualized salary in Q1 of 2020 was \$62,400 (\$1,200 per week). During the eight-week period, Employee B’s annualized salary was \$36,400 (\$700 per week). Per the instructions on the bottom of Page 7 of the PPP Loan Forgiveness Application, conduct the following calculation:
  - \$36,400 divided by \$62,400 = 58.3%. Since the salary during the Covered Period (or Alternative Covered Period) was less than 75% of the salary for that employee in the 1<sup>st</sup> Quarter of 2020, there will be a reduction in loan forgiveness calculated as follows:
    - \$62,400 multiplied by .75 = \$46,800
    - \$36,400 minus \$46,800 = -\$10,400
    - -\$10,400 multiplied by 8 = -\$83,200
    - -\$83,200 divided by 52 = -\$1,600
 In this example, for this employee, the amount of \$1,600 will be subtracted from the amount of loan forgiveness.

<sup>4</sup> Applicable to employees with annual cash compensation of \$100,000 or less.

This calculation must be completed for each employee (who did not receive, during any single pay period during 2019, wages or salary at an annualized rate of pay in an amount more than \$100,000) that had a reduction in wage or salary in excess of 25% as compared to the most recent full quarter during which the employee was employed before the covered period.

Click here for [Reduction in Salary or Wages FAQs](#)

## PPP Schedule A

Once you complete the PPP Schedule A Worksheet (if you have employees); then you will complete the PPP Schedule A. (For self-employed with no employees, you only complete the PPP Schedule A).

1. **PPP Schedule A Worksheet, Table 1 Totals:** Includes the cash compensation<sup>5</sup> totals for the Covered Period or Alternative Payroll Covered Period paid to your employees with Cash Compensation of \$100,000 or less per year (Line 1); the Average FTE calculated for these employees (Line 2); and if applicable, the total of any Salary/Hourly Wage Reduction for the Covered Period or Alternative Payroll Covered Period (Line 3).
2. **PPP Schedule A Worksheet, Table 2 Totals:** Includes the cash compensation totals for the Covered Period or Alternative Payroll Covered Period paid to your employees with Cash Compensation of over \$100,000 per year (Line 4), and the Average FTE calculated for these employees (Line 5).
3. **Non-Cash Compensation Payroll Costs During the Covered Period or the Alternative Payroll Covered Period:** This includes the total amount paid by you for employer contributions for:
  - a. Employee Health Insurance (Line 6)
  - b. Employee Retirement Plans (Line 7)
  - c. Employer state and local taxes assessed on employee compensation (Line 8)
4. **Compensation to Owners:** This is the amount paid to owner-employees/self-employed individual/general partners (Line 9) ***These amounts are not included in the PPP Schedule A Worksheet Table 1 or 2.***
  - a. If there is more than one individual being paid, you must attach a separate table that lists the names of and payments to each.
  - b. The amount **cannot** exceed eight weeks' worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at \$15,385 per individual.
    - i. For example, if you are self-employed and file a Schedule C, and your net profit on your 2019 Schedule C was \$40,000, you can only enter in \$6,154 (\$40,000 divided by 52 multiplied by 8);
    - ii. For example, if you are a general partnership, and each active general partner showed compensation of \$120,000 in tax records from 2019 (K-1), each partner is limited to compensation of \$15,385 (\$100,000 divided by 52 multiplied by 8);
    - iii. For example, if you are a general partnership, and each active general partner showed compensation of \$50,000 in tax records from 2019 (K-1), each partner is limited to compensation of \$7,692 (\$50,000 divided by 52 multiplied by 8).

---

<sup>5</sup> Sum of gross salary, gross wages, gross tips, gross commissions, paid leave, and allowances for dismissal or separation paid or incurred during the Covered Period or Alternative Payroll Covered Period.

5. **Total Payroll Costs (Line 10):** Adding all the applicable items above (Lines 1, 4, 6, 7, 8, and 9).
6. **FTE Reduction Calculation:**
  - a. If you did not reduce the number of FTE employees or the average paid hours of your employees between January 1, 2020 and the end of your Covered Period, check the box and skip Lines 11 and 12, and enter **1.0** on Line 13.
  - b. If you did reduce the number of FTE employees and the Safe Harbor was met (you had a reduction in FTE employees during the period beginning on February 15, 2020 and ending on April 26, 2020 and you eliminated the reduction in the number of FTE employees no later than June 30, 2020, see PPP Schedule A Worksheet “FTE Reduction Safe Harbor), skip Lines 11 and 12, and enter **1.0** on Line 13.
  - c. If you did reduce the number of FTE employees and the Safe Harbor was not met enter your Average FTE during your chose reference period on Line 11<sup>6</sup>, and complete the calculations for Line 12 and Line 13.

### PPP Loan Forgiveness Calculation Form

Once you complete the PPP Schedule A, you will be ready to complete the PPP Loan Calculation Forgiveness Form. *We expect revisions to this form. Do not complete this form at this time. This is for your reference to help you prepare.*

1. **SBA PPP Loan Number, Lender PPP Loan Number, and PPP Loan Disbursement Date:** We are working on a process to provide you with this information when we send you the link to complete your application for loan forgiveness. Due to the high volume of PPP Loans, we ask that you not individually contact us for this information.
2. **Employees at Time of Loan Application/Time of Forgiveness Application:** This is total employees (includes full-time and part-time). This figure does not affect your forgiveness amount.
3. **Payroll and Nonpayroll Costs**
  - a. Payroll Costs will come from your PPP Schedule A.
  - b. Business Mortgage Interest Payments. *\*UBT Suggestion: Document interest paid on secured loans (both for real estate secured and loans secured by personal property such as equipment or business vehicles) during the Covered Period. Prepayment is not allowed. Debt obligation must have been incurred on or before February 15, 2020.*
  - c. Business Rent or Lease Payments. *\*UBT Suggestion: Document amounts paid for business rent or lease payments on real or personal property during the Covered Period. Agreements must have been in place on or before February 15, 2020.*
  - d. Business Utility Payments: *\*UBT Suggestion: Document amounts paid for covered utility payments which are business payments for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020.*
4. **Potential Forgiveness Amount:** The Forgiveness Amount is the lesser amount of the following three amounts:
  - a. The total of Payroll and Nonpayroll Costs multiplied by the FTE Reduction Quotient (PPP Schedule A Line 13).
  - b. The PPP Loan Amount
  - c. Payroll Costs (PPP Schedule A Line 10) divided by .75.
5. **Examples of Potential Forgiveness Amount:**

---

<sup>6</sup> See [“Reduction in Loan Forgiveness Amount Due to Reduction in Number of Full Time Equivalent Employees”](#).

- a. Example 1: Assume a PPP loan of \$100,000. The total of Payroll and Nonpayroll Costs was \$110,000. There was no FTE Reduction. Payroll Costs were \$75,000.
  - i. \$110,000 was total of Payroll and Nonpayroll Costs (no FTE Reduction)
  - ii. \$100,000 PPP Loan Amount
  - iii. Payroll Costs of \$75,000 divided by .75 = \$100,000  
In this example, the amount of \$100,000 is the lesser amount, so it is the Forgiveness Amount
- b. Example 2: Assume a PPP loan of \$100,000. The total of Payroll and Nonpayroll Costs was \$100,000. FTEs had reduced from 10 to 8 FTE. Therefore, the FTE Reduction Quotient was 80%. Payroll Costs were \$45,000.
  - i. \$100,000 Payroll and Nonpayroll Costs multiplied by the FTE Reduction Quotient of 80% = \$80,000.
  - ii. \$100,000 PPP Loan Amount
  - iii. Payroll Costs of \$45,000 divided by .75 = \$60,000  
In this example, the amount of \$60,000 is the lesser amount, so it is the Forgiveness Amount.

***These examples show the importance of payroll costs and retaining FTE employee numbers, which is the primary purpose of the loan.***

#### 6. Page 4 – Certification by Borrower

***\*UBT Suggestion:*** *We encourage you to read through this certification carefully so you understand the requirements and implications.*

## FAQ Section

### General FAQs

#### When should I complete and submit the PPP Loan Forgiveness Application?

We anticipate the SBA and Treasury will issue additional guidance and revisions to the Paycheck Protection Loan Forgiveness Application within the next few weeks. While you should remain aware of the current requirements, due to anticipated changes, we do not recommend completing the Paycheck Protection Loan Forgiveness Application at this time. We suggest waiting until several weeks after the end of your Covered Period or Alternative Covered Period to prepare all documentation and submit your PPP Loan Forgiveness Application. We will email you a link when we are ready to accept your application.

#### Does the amount forgiven include accrued interest?

Yes. The amount of loan forgiveness will be the amount of principal calculated as forgiven (can be up to the full principal amount of the loan) and any accrued interest on the principal amount forgiven.

#### How soon will you decide on the amount of my forgiveness?

Per the CARES Act, we are required to issue you a decision within 60 days after we receive your application for loan forgiveness; then the SBA will issue their decision within 90 days following our decision.

#### I do not anticipate being able to receive full loan forgiveness. Does this create a problem?

No, if you have used the funds or plan to use remaining funds for payroll or business expenses to help your business during this uncertain economic time, you may do so. You will be

responsible for payment of any unforgiven portion and accrued interest per the terms of your loan.

**If I do not receive full loan forgiveness, will the payments follow the original loan terms?**

If you utilized all the funds from your loan, once the Forgiveness Amount is applied, we are working on a process to amend your loan to reduce your payments over the remaining period of your loan (18 payments). If you did not utilize all your loan funds, or do not intend to utilize them, you may simply make a principal payment on your loan. You will also be responsible for accrued interest on the portion that is not forgiven.

**Will I be responsible for making payments on my loan while I wait on a determination for loan forgiveness?**

Payments are deferred on your loan for six months; therefore, the first payment is due 7 months from the date your loan originated. If you submit your application for loan forgiveness within 3 to 4 months of the origination date of your loan, the amount of principal forgiven (and accrued interest on the forgiven portion) will be credited to your account prior to any payment due date.

**Are salary, wages, or commission payments to furloughed employees; bonuses; additional wages to tipped employees; increases in salary; or hazard pay during the covered period eligible for loan forgiveness?**

Yes (provided they do not exceed \$100,000 total compensation annualized).

**Can I prepay mortgage interest with the loan funds?**

No

**Can I prepay our lease payments or utilities with the loan funds?**

Current guidance indicates this is allowed. Please keep in mind, you are limited to up to 25% of the amount of forgiveness for non-payroll costs.

**Can I utilize loan funds to pay other operational expenses, such as business insurance premiums, cleaning services, delivery services, bank fees, association fees, software fees, costs of employee protection equipment, etc.?**

Those costs do not qualify as forgivable non-payroll costs.

**Is the amount of PPP loan forgiveness taxable by the IRS?**

No. By statute, the amount forgiven on PPP loans is not taxable.

**If I had an EIDL loan refinanced into my PPP loan, how does that affect the amount of loan forgiveness?**

Proceeds from any advance up to \$10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

**How do I calculate the average number of FTE employees?**

Per the *Instructions for PPP Schedule A Worksheet* on the *Paycheck Protection Program Loan Forgiveness Application* for each employee, you calculate the average number of hours paid per week, divide by 40, and round the total to the nearest tenth. The maximum for each employee is capped at 1.0. A simplified method that assigns a 1.0 for employees who work 40 hours or more per week and 0.5 for employees who work fewer hours may be used at the election of the Borrower.<sup>7</sup>

---

<sup>7</sup> Updated 5/17/2020

### **Will the SBA review individual loan files?**

Yes. SBA may review any PPP loan, as follows:

1. **Borrower Eligibility:** Whether or not the borrower is eligible for the PPP loan based on provisions of the CARES Act and rules and guidance available to the borrower at the time of their loan application.
2. **Loan Amounts and Use of Proceeds:** Whether a borrower calculated the loan amount correctly and used loan proceeds for allowable uses.
3. **Loan Forgiveness Amount:** Whether the borrower is entitled to loan forgiveness in the amount claimed on the borrower's Loan Forgiveness Application (SBA Form 3508 or lender's equivalent form).

### **When will SBA undertake a loan review?**

At any time. Per the Loan Forgiveness Application Form, the borrower must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full, and permit authorized representatives of SBA, including representatives of its Office of Inspector General, to access such files upon request.

### **Will I have the opportunity to respond to SBA's questions in a review?**

Yes. If loan documentation submitted to SBA by the lender or any other information indicates that the borrower may be ineligible for a PPP loan or may be ineligible to receive the loan amount or loan forgiveness amount claimed by the borrower, SBA will require the lender to contact the borrower in writing to request additional information. SBA may also request information directly from the borrower. The lender will provide any additional information provided to it by the borrower to SBA. SBA will consider all information provided by the borrower in response to such an inquiry.

### **If SBA determines that a borrower is ineligible for a PPP loan, can the loan be forgiven?**

No.

### **May a borrower appeal SBA's determination that the borrower is ineligible for a PPP loan or ineligible for the loan amount or the loan forgiveness amount claimed by the borrower?**

Yes. SBA intends to issue a separate interim final rule addressing this process.

### **Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals' own payroll compensation?**

Yes, the amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation can be no more than the lesser of 8/52 of 2019 compensation (maximum of \$15,385 per individual in total across all businesses).

- Owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf.
- Schedule C or Schedule F filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit. No additional forgiveness is provided for retirement or health insurance contributions for these self-employed individuals as such expenses are paid out of their net self-employment income.
- General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.

No additional forgiveness is provided for retirement or health insurance contributions for general partners, as such expenses are paid out of their net self-employment income.

### **Which calculation should I use to calculate the average FTEs? The regular method, or the Simplified Method?**

We suggest you calculate both and determine which one is most beneficial for you to use. Remember you will need to compare the FTE's during your Covered Period or Alternative Payroll Covered Period to your previous number of FTEs (*explained in more detail in "5. FTE Calculations for Possible Reduction" below*). You must utilize the same method for both calculations.

### **I do not maintain hours-worked data. How can I calculate FTEs?**

The SBA recognizes that not all borrowers maintain hours-worked data. Therefore, the Simplified Method was developed as an option for you.

### ***Reduction in Number of FTE FAQs***

#### **My number of FTEs reduced from February 15, 2020 to April 26, 2020; however, I did not rehire all of them during the Covered Period or the Alternative Payroll Covered Period. What should I do?**

Per the current rule, you have until June 30, 2020 to rehire your staff back to the FTE level it was for the pay period that included February 15, 2020. If you do not, you do not meet the safe harbor rule, and there may be a reduction in the amount of forgiveness based on the FTE Reduction quotient.

#### **Will a borrower's loan forgiveness amount be reduced if the borrower laid-off or reduced the hours of an employee, then offered to rehire the same employee for the same salary and same number of hours, or restore the reduction in hours, but the employee declined the offer?**

No. Employees whom the borrower offered to rehire are generally exempt from the CARES Act's loan forgiveness reduction calculation. This exemption is also available if a borrower previously reduced the hours of an employee and offered to restore the employee's hours at the same salary or wages. Certain requirements apply. See [FTE Reduction Exemptions](#).

#### **I have heard that the date for rehire might be extended past June 30, is this correct?**

We have heard this is a consideration being discussed. If this affects you, we suggest not applying for loan forgiveness until July to see if additional guidelines are issued.

#### **Will a borrower's loan forgiveness amount be reduced if an employee is fired for cause, voluntarily resigns, or voluntarily requests a schedule reduction?**

No. When an employee is fired for cause, voluntarily resigns, or voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period (FTE reduction event), the borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the FTE employee reduction penalty. The borrower must maintain records demonstrating that each such employee was fired for cause, voluntarily resigned, or voluntarily requested a schedule reduction.

## Reduction in Salary or Wages FAQs

**I reduced the number of hours for an employee; therefore, lowering their salary. Since I already calculated a reduction in the amount of loan forgiveness due to the reduction in hours, do I also calculate a reduction in loan forgiveness due to the reduction in salary?**

No. If the reduction in the salary is attributable to the FTE reduction, you are not doubly penalized for salary/wage reduction. The salary/wage reduction applies only to the portion of the decline in the employee salary and wages that is *not* attributable to the FTE reduction.

**If I restore reductions made to employee salaries and wages no later than June 30, 2020, will I avoid a reduction in my loan forgiveness amount?**

Yes. If employee<sup>8</sup> salaries and wages were reduced between February 15, 2020 and April 26, 2020, and you eliminate those reductions by June 30, 2020 or earlier, you are exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in salaries and wages.

## Information for Self-Employed Individuals Who Have No Employees

The following information is applicable only to **self-employed individuals who file an IRS Form Schedule C or Schedule F, and who have no employees.**

**When does my eight-week period begin?**

The eight-week Covered Period begins on the date of loan disbursement.

**What amounts shall be eligible for forgiveness?**

The amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent over the covered period on:

- Owner compensation replacement, calculated based on 2019 net profit as shown on your 2019 IRS Form 1040 Schedule C line 31 (or Schedule F line 34), with forgiveness of such amounts limited to eight weeks' worth (8/52) of 2019 net profit, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;
- Payments of interest on any business mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C or Schedule F (Part II Expenses);
- Business rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C or Schedule F (Part II Expenses); and
- Business utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C or Schedule F (Part II Expenses).

At the end of your Covered Period, you must complete the PPP Loan Forgiveness Application, including PPP Schedule A, and submit it with the required documentation to support the amount of loan forgiveness you are requesting.

---

<sup>8</sup> Applicable to employees with annual cash compensation of \$100,000 or less.