



UNITED COMMUNITY BANK

Perham | Dent | Frazee

Greetings!

I hope you all are having a great week and enjoying the gorgeous weather!

I wanted to reach out this week to give you an update on new guidance that was released on Tuesday by the Treasury Department and SBA. For the past six weeks, I have been anticipating the day that we will have the final rules for the PPP forgiveness process. As you receive my weekly newsletters, you have been waiting patiently for this guidance as well. Our software provider has been doing an excellent job with all of the changes from the Treasury Department and SBA regarding the PPP forgiveness process. They are working 24/7 and are hoping to have their software finalized by early next week. I know I have said that before but please hang in there as there could be additional changes!

You will be able to submit your PPP forgiveness application online through our secure portal, hopefully by next week. With all of the changes to the PPP program, our secure portal is being updated to reflect the changes. Once all of the updates are made, you will receive an email link that will take you to this secure portal and walk you through the PPP forgiveness process. **Please wait for us to send you this link** as it will streamline the PPP forgiveness process for both of us! There is plenty of time to submit your application and we appreciate your patience throughout this process.

Agencies Issue New Borrower Forgiveness Application Form 3508

With the passage of the PPP Flexibility Act, the SBA and Treasury needed to update the Borrower PPP Loan Forgiveness application. They issued new forms and instructions on June 16.

The general rule is now that borrowers have a 24-week forgiveness period rather than an 8-week forgiveness period. That change will result in more borrowers receiving 100% loan forgiveness. Also, the change from a requirement to use 75% of the loan amount for payroll purposes to just 60% will also help some borrowers. The loan forgiveness amount as calculated from the application form will now be smallest of three numbers:

1. Total payroll expenses plus other allowable expenses during the forgiveness period. If a borrower reduces its staffing levels and does not get back to regular levels by December 31, 2020, they may incur a penalty which reduces this number.
2. PPP Loan amount.
3. Payroll expenses divided by .6. This third number will only be the lowest of the three numbers if the borrower did not use at least 60% of the loan proceeds for payroll expenses. If the borrower does not use 60% of the loan proceeds for payroll expenses and this third number comes into play, the borrower will not get 100% loan forgiveness. Borrowers must understand that fact.

For borrowers that use at least 60% of the loan proceeds for payroll expenses, their loan forgiveness amount will be the lesser of their total payroll plus other allowable PPP expenses or their loan amount. The 24-week loan forgiveness

period will help ensure that the borrower's total allowable PPP expenses incurred is larger than their loan amount.

Remember this loan forgiveness rule: To get 100% forgiveness, the borrower must show that total allowable PPP expenses are greater than or equal to their loan amount, **AND** the borrower must show that 60% or more of their loan proceeds were used for payroll purposes.

Some borrowers that did not reduce staffing levels will be able to complete the loan forgiveness applications soon. Others that did reduce staffing levels and are working to rehire people will need to wait before they complete the forms because they will need to know whether the penalty for not rehiring people by December 31 comes into play.

Agencies Issue New Borrower Forgiveness Application Form 3508EZ

A subset of PPP borrowers will be able to use a simpler loan forgiveness form, Form 3508EZ. This new EZ document is somewhat shorter; the Form is 3 pages long and the Instructions are 4 pages long, which is only a little bit better than the revised regular form and instructions.

There are three different ways that a borrower can qualify for using the 3508EZ Form. They can use the form if any one of the three apply.

- Self-employed borrowers who did not include any other employee payroll expenses in their PPP application can use this form. If they included other employees, they cannot use this form.
- Borrowers that did not reduce any employee wages or salary by more than 25% during the Covered Period or Alternative Covered Period, as applicable, compared to the period January 1, 2020 and March 31, 2020; AND did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period. For purposes of this rule, Borrowers can ignore reductions if they have re-hired similarly qualified employees on or before December 31, 2020. They also ignore reductions in an employee's hours if the employee refused employment.
- Borrowers that did not reduce any employee wages or salary by more than 25% during the Covered Period or Alternative Covered Period, as applicable, compared to the period January 1, 2020 and March 31, 2020; AND was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards of sanitation, social distancing, or any other work or customer safety requirement related to COVID-19.

For purposes of the second bullet point above, the Borrowers will need to determine whether they qualify. This rule is similar to the calculation borrowers would use on the original forgiveness form to determine whether they would have incurred a penalty for reducing employment levels and not rehiring people by December 31. Neither the 3508EZ Form, nor its instructions, give borrowers a worksheet to complete to determine eligibility to use the EZ form. Borrowers will need to make their own calculations, perhaps using the worksheets that are part of the regular 3508 form and instructions.

On the EZ form the loan forgiveness amount is determined the same way as it is on the regular form. It is again the lesser of three numbers: total allowable PPP expenses; PPP loan amount; and payroll expenses divided by .6.

The same rules discussed above will apply. If a borrower does not use at least 60% of their PPP loan for payroll expenses, the third number will be the lowest, and the

borrower will not get 100% of their loan approved. If a borrower does use at least 60% of their loan for payroll expenses, their forgiveness amount will be the lesser of their loan amount or their total allowable payroll expenses.

Finally, **remember the loan forgiveness rule.** To get 100% forgiveness, borrowers must show the total allowable PPP expenses are greater than or equal to their loan amount, **AND** borrowers must show that 60% or more of their loan proceeds were used for payroll purposes.

I know this is confusing but if you have any questions or need any help, please reach out and we will help in any way we can. Thank your for your continued patience. If you missed any of our past newsletters please visit our [Small Business Resource Page](#).

Sincerely,

Ryan A. Rustad

Chief Lending Officer

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