



# **CARES Act: Paycheck Protection Program**

Hosted by:



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# Overview

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# What Is The CARES Act?

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved and signed into law. The CARES Act has several key provisions that include the Paycheck Protection Program (PPP), stimulus payments, changes to Individual Retirement Arrangements (IRAs), new retirement loan minimums and more.

The focus of this presentation will be on the Paycheck Protection Program.

*The information contained herein is solely intended to facilitate discussion. Frost Bank does not provide accounting, tax or legal advice; however, you should be aware that any proposed transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and/or legal counsel.*

# What Is The Paycheck Protection Program?

- The CARES Act created this program to help bridge payroll expenses through June 30, 2020.
- If your business has fewer than 500 employees, you may be eligible for a loan of up to \$10 million to keep your company running.
- The PPP will be administered by the Small Business Administration (SBA). The SBA began accepting applications on Friday, April 3, 2020.
- **Frost is participating in this program and began accepting applications on Friday, April 3, 2020, in an effort to provide these PPP loans to our business customers impacted by the current economic environment to assist with covering costs.**
- **If you are not a Frost customer, we recommend contacting your bank to determine if they are participating in this program and when they will begin accepting applications.**

## How Much Can I Borrow?

- Businesses can borrow up to 2.5 times their average monthly payroll from the previous year. You can include U.S.-based contractors and part-time employees in your calculations. However, for the purposes of this loan, payroll is capped at \$100,000 per employee.
- There is a cap of \$10 million dollars per business for this loan.
- For non-seasonal employers, the average monthly payroll is the average total monthly payments for payroll during the 2019 calendar year.
- For seasonal employers, the average monthly payroll is the average total monthly payments for the payroll period between February 15, 2019 through June 30, 2019, or March 1, 2019 through June 30, 2019, at the election of the borrower.
- For businesses that were not in operation during February 15, 2019 to June 30, 2019, the average monthly payroll is the average total monthly payments for the payroll period between January 1, 2020 to February 29, 2020.

# What Qualifies as 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, wage, commissions, income, or net earnings from self-employment or similar compensation.

**The following is excluded from payroll costs:**

- Any compensation of an employee whose principal place of residence is outside of the United States;
- The compensation of an individual employee in excess of an annual salary of \$100,000, prorated as necessary;
- Federal employment taxes imposed or withheld between February 15, 2020 and June 30, 2020, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes, and income taxes required to be withheld from employees; and
- 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).

# What Can I Use The Loan For?

- Employee salaries, wages and commissions
- Paid leave and severance
- Group health care benefits during periods of paid, sick, medical or family leave and insurance premiums
- Retirement benefits
- State and local payroll taxes
- Interest on mortgage obligation
- Rent or leases, under lease agreements in effect before February 15, 2020
- Utilities, for which service began before February 15, 2020

# What Are The PPP Loan Terms?

- This loan has a maturity of two years and an interest rate of 1.00%
- Loan payments will be deferred for six months
- The loan amount is determined by the lesser of \$10 million or an amount calculated by the payroll-based formula based on calendar 2019 payroll costs
- If you maintain your workforce, SBA will forgive the portion of the loan proceeds that are used to cover the first eight weeks of payroll and certain other expenses following loan origination
- No prepayment penalties
- No personal guarantee or collateral guarantee required
- SBA guaranty fee will be waived
- E-signatures and e-consents are acceptable

## Who Is Eligible for this Loan Program?

- This program is available to all businesses, non-profit organizations, veterans' organizations, tribal business concerns, sole proprietorships, self-employed individuals and independent contractors with fewer than 500 employees. The SBA typically counts anyone on the payroll as one employee, regardless of hours worked or temporary status.
- Faith-based organizations are eligible to receive SBA loans regardless of whether they provide secular social services. Any faith-based organization that receives a loan will retain its independence, autonomy, right of expression, religious character, and authority over its governance, and no faith-based organization will be excluded from receiving funding because leadership with, membership in, or employment by that organization is limited to persons who share its religious faith and practice.
- There are limited exceptions for businesses larger than 500 employees if they meet applicable SBA employee-based size standards for those industries.
- Certain businesses in the food or hospitality industry may be eligible if they have more than 500 employees spread out among different locations, provided each location does not have more than 500 employees.

## Is There A Loan Forgiveness Provision?

- Some or all of the loan will be forgivable if you use the funds for payroll, including employee salaries, paid sick or medical leave, and insurance premiums. You must use at least 75% of the loan proceeds for payroll expenses in the 8 weeks following the loan origination date.
- Up to 25 percent of the loan amount may also be forgivable if used to cover other business expenses required to keep your business afloat, including rent, utility payments, and mortgage interest on loans incurred prior to February 15, 2020. Again, this must be spent in the 8 weeks following the loan origination date.
- If you laid off workers after February 15, or if you lay off workers before June 30, the amount of the loan that is subject to “forgiveness” will be proportionately reduced, and a portion of your loan will not be forgiven, *i.e.* you will need to pay the unforgiven portion of the loan back to the SBA. If you rehire your laid off employees, however, you will not be penalized.

## Is There A Loan Forgiveness Provision? (cont.)

- If you reduced your employees' compensation after February 15, or if you reduce employee compensation before June 30, your forgiveness eligibility will likewise be reduced, and a portion of the loan will need to be repaid to the SBA. If you do rehire employees, be mindful of the mandated sick leave rights as of April 1 under the Families First Coronavirus Response Act ("FFCRA") for these employees. The FFCRA requires employers to provide up to 80 hours of paid sick leave for any employee with one of the following triggering events:
  - Is subject to a Federal, State, or local quarantine/isolation order related to COVID-19;
  - Has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
  - Is experiencing symptoms of COVID-19 and seeking a medical diagnosis;
  - Is caring for an individual who either is subject to a quarantine or isolation order related to COVID-19 or has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
  - Needs to care for a child (under 18 years of age) whose school or child care provider is closed or unavailable for reasons related to COVID-19; or
  - Is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services.

## What Are The Key Dates For This Program?

- February 15, 2020 - your business, mortgage, rental contract or business loan must have been in effect prior to this date.
- April 3, 2020 - the first date in which small business owners, sole proprietorships and non-profits can apply for this loan. Please note that not all banks began accepting applications on this date, so contact your bank to see when they will begin accepting applications.
- April 10, 2020 - the first date in which independent contractors and self-employed individuals can apply for this loan.
- June 20, 2020 - the final date to apply for this loan, unless the funds are exhausted prior to this date.

## What Can I Do To Prepare To Apply?

- Borrowers are required to submit payroll documentation as well as the information outlined below, along with their application. Your application will not be reviewed unless all documentation is provided at the time of submission:
  - Date the business started
  - Business's mailing address
  - If filed, the 2019 Federal Tax Return. If not, please have complete 2019 financials, including the business's profit/loss and balance sheet
  - IRS Form 941 –Employer's Quarterly Federal Income Tax Return for all for quarters for 2019
  - The number of employees paid more than \$100,000 per year
  - Calculation of the total payroll for employees paid during the applicable base period, excluding amounts paid above a prorated annual salary of \$100,000
- Other documents that may be required, if not currently on file with your financial institution include:
  - Entity documents
  - Certificate of good standing
  - Copy of Borrowing Authority—IRS letter assigning employer identification number, Certificate of Incorporation filed with the state, Articles of Incorporation and By-Law (or Operating Agreement if LLC), Partnership Agreement and Assumed Name Certificate filed with the state, if applicable

## Frequently Asked Questions

**Can I use my 2018 tax return?**

No, please use a 2019 Federal Tax Return if filed, or your complete 2019 financials, including the business's profit/loss and balance sheet.

**Where do I get a Certificate of Good Standing?**

To obtain a Certificate of Good Standing, please visit the Secretary of State's website at <https://www.sos.state.tx.us/corp/copies.shtml>

**Will I need an IRS Form 941?**

Yes, if you are required to submit an IRS Form 941 then you will need to provide this to us.

**If I cannot provide my 2019 taxes nor a profit/loss sheet, can I still submit my application?**

No, all required documents must be submitted in order for us to make a decision on your loan.

**What is the turnaround time for a decision on my loan application?**

We have received a large number of applications and at this time are unable to provide a timeline. We are working as fast as we can to provide a decision to all applicants as soon as possible.

## **Frequently Asked Questions (cont.)**

**If I have multiple businesses, do I need to complete a separate application for each?**  
Yes, you will need to submit a separate application for each business.

**Is a spreadsheet with 2019 revenues acceptable?**  
No, please provide payroll data.

**Will Frost run a credit report for this loan application?**  
No, we will not run a personal credit report for this loan.

**Is Frost reviewing loan applications on a first come, first served basis?**  
As soon as we receive your application and all required documents, we will begin the review process.

**When will my loan be funded?**  
Regardless of the bank, best practice is that the bank should not fund your loan until confirmation of the guarantee from the SBA has been received.

## Frequently Asked Questions (cont.)

What if the funding runs out before my application is approved?

The Treasury Department has requested that the SBA provide frequent updates as to the amount of loans received. President Trump has indicated that, if necessary, he will ask Congress for more money for the Paycheck Protection Program.

**Confused about social distancing?  
Use this decision tree.**



# Resources

## SBA Paycheck Protection Program (PPP) Information

### Overview

<https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program-ppp>

### *Application*

<https://www.sba.gov/document/sba-form--paycheck-protection-program-borrower-application-form>

### **Faith-Based Organization FAQs**

<https://www.sba.gov/document/support--faq-regarding-participation-faith-based-organizations-ppp-eidl>

## CARES Act Bill Information

### CARES Act

<https://www.congress.gov/bill/116th-congress/senate-bill/3548/text>

### Interim Final Rule

<https://www.sba.gov/document/policy-guidance--ppp-interim-final-rule>

## **The Nonprofit Management Center Website**

<https://www.nmc-pb.org/covid-19-for-nonprofits>

## **Frost Website**

<https://www.frostbank.com/COVID-19/CARESAct>



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**Thank You**

