PAYCHECK PROTECTION PROGRAM HIGHLIGHTS

The Paycheck Protection Program ("PPP") authorizes up to $349 billion in forgivable loans to small businesses to pay their employees up to eight weeks of payroll costs including benefits during the COVID-19 crisis. Funds can also be used to pay interest on mortgages, rent, and utilities. ***All loan terms will be the same for everyone.***

The loan amounts will be forgiven as long as:

- The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the eight week period after the loan is made; and
- Employee and compensation levels are maintained.
- A minimum of 75% of the funds must be directly associated with payroll to qualify for forgiveness.

Payroll costs are capped at $100,000 on an annualized basis for each employee.

Fully Forgiven Versus Partially Forgiven

Funds are provided in the form of loans that will be fully forgiven when used for payroll costs, interest on mortgages, rent, and utilities (at least 75% of the forgiven amount must have been used for payroll). Loan payments will also be deferred for six months. No collateral or personal guarantees are required. Neither the government nor lenders will charge small businesses any fees. Unlike most forgiveness, this forgiveness is NOT taxable. **This is not a grant program**.

Must Keep Employees on the Payroll—or Rehire Quickly

Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels. Forgiveness will be reduced if full-time headcount declines, or if salaries and wages decrease.

Borrowers will be required to attest/certify that these funds are needed as a direct result of COVID-19 and demonstrate the hardship that will exist without access to the PPP funds.

Who can apply?

Small businesses with 500 or fewer employees—including nonprofits, veteran's organizations, tribal business concerns, sole proprietorships, self-employed individuals, and independent contractors—are eligible. Businesses in certain industries can have more than 500 employees if they meet applicable SBA employee-based size standards for those industries

For this program, the SBA's affiliation standards are waived for small businesses (1) in the hotel and food services industries; or (2) that are franchises in the SBA's Franchise Directory); or (3) that receive financial assistance from small business investment companies licensed by the SBA. Additional guidance may be released as appropriate. Treasury and the SBA have prioritized getting money to small businesses. After that and during the forgivable (up to) eight weeks they will be working on the ***"how"*** of how this works from a process standpoint.

Documentation verifying the number of full-time equivalent employees on payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight week period following this loan will be provided to the lender.

Could I be ineligible even if I meet the eligibility requirements above?

You are ineligible for a PPP loan if, for example:

- You are engaged in any activity that is illegal under federal, state, or local law;
- You are a household employer (individuals who employ household employees such as nannies or housekeepers);
- An owner of 20 percent or more of the equity of the applicant is incarcerated, on probation, on parole; presently subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or has been convicted of a felony within the last five years; or
- You, or any business owned or controlled by you or any of your owners, has ever obtained a direct or guaranteed loan from SBA or any other Federal agency that is currently delinquent or has defaulted within the last seven years and caused a loss to the government.

How do I determine if I am ineligible?

Businesses that are not eligible for PPP loans are identified in 13 CFR 120.110 and described further in SBA's Standard Operating Procedure (SOP) 50 10, Subpart B, Chapter 2, except that nonprofit organizations authorized under the Act are eligible. (SOP 50 10 can be found at *https://www.sba.gov/document/sop-50-10-lender-development-company-loan-programs*.)

When can I apply?

- Starting April 3, 2020, small businesses and sole proprietorships can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.
- First State Bank Southwest is an Existing SBA Approved Lender
- Starting April 10, 2020, independent contractors and self-employed individuals can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.
- Other regulated lenders will be available to make these loans as soon as they are approved and enrolled in the program.

How do I apply?

Contact your First State Bank Southwest loan officer today. All loans will have the same terms regardless of lender or borrower. A list of participating lenders as well as additional information and full terms can be found at *www.sba.gov*.

What do I need to apply?

To respect this process and to make it as efficient as possible for everyone, including the applicants, First State Bank Southwest only be actively working on submitting applications that are fully completed with all required and requested documentation included. First State Bank Southwest must first approve each application before the application is submitted to the SBA. The required documentation includes, but is not limited to:

- Fully completed and signed SBA Form 2483 (Paycheck Protection Program Application Form)
- Copy of drivers license for any business owner 20% or greater
- Signed certification document
- 2019 Payroll Summary Report from your financial software such as Quickbooks, or from your payroll provider that identifies the eligible payroll and eligible payroll related costs.
- SBA excludes eligible payroll in excess of $100k/yr. for any one person. If this exclusion would apply to any employee of your business, please provide a worksheet providing information regarding this employee and total 2019 compensation. An adjustment will be made accordingly to comply with SBA's requirements and the amount of your loan (and ultimately the amount of any potential loan forgiveness) will be made during underwriting.

If you do not currently have a loan with First State Bank Southwest, the following information is also required:

- Last 2 years tax returns for the business that is applying for the loan
- If 2019 tax returns are not completed for the business, internal financial statements including 12/31/2019 Balance Sheet and Income Statement will be required.
- Additional financial and other information may be required before the application can be approved and submitted.

Do I need to first look for other funds before applying to this program?

No. The usual SBA requirement that you try to obtain some or all of the loan funds from other sources has been waived for this program (i.e., we are waiving the Credit Elsewhere requirement).

How long will this program last?

Although the program is open until June 30, 2020, we encourage you to apply as quickly as you can because there is a funding cap and lenders need time to process your loan. It is unclear how the forgiveness process will work mechanically and we expect that guidance to come in the days ahead, as Treasury and the SBA have prioritized getting money to small businesses that qualify over how things will work on the backside.

How many loans can I take out under this program? Only one

What can I use these loans for?

You should use the proceeds from these loans on your:

- Payroll costs, including benefits; (75% of the proceeds need to be used for this to qualify for maximum forgiveness under the program)
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

It is unclear if interest on lines of credit secured by commercial real estate is a qualified expense. It is also unclear at this time if current SBA ownership restrictions will apply to the Payroll Protection Program.

How do I calculate the maximum amount I can borrow?

The following methodology, which is one of the methodologies contained in the Act, will be most useful for many applicants.

- Step 1: Aggregate payroll costs (defined in detail below) from the last twelve months for employees whose principal place of residence is the United States.
- Step 2: Subtract any compensation paid to an employee in excess of an annual salary of $100,000 and/or any amounts paid to an independent contractor or sole proprietor in excess of $100,000 per year.
- Step 3: Calculate average monthly payroll costs (divide the amount from Step 2 by 12).
- Step 4: Multiply the average monthly payroll costs from Step 3 by 2.5.
- Step 5: Add the outstanding amount of an Economic Injury Disaster Loan (EIDL) made between January 31, 2020 and April 3, 2020, less the amount of any "advance" under an EIDL COVID-19 loan (because it does not have to be repaid).

The examples below (provided by the SBA) illustrate this methodology.

- Example 1 - No employees make more than $100,000
  Annual payroll: $120,000
  Average monthly payroll: $10,000
  Multiply by 2.5 = $25,000
  Maximum loan amount is $25,000

- Example 2 - Some employees make more than $100,000
  Annual payroll: $1,500,000
  Subtract compensation amounts in excess of an annual salary of $100,000: $1,200,000
  Average monthly qualifying payroll: $100,000
  Multiply by 2.5 = $250,000
  Maximum loan amount is $250,000

- Example 3 - No employees make more than $100,000, outstanding EIDL loan of $10,000.
  Annual payroll: $120,000
  Average monthly payroll: $10,000
  Multiply by 2.5 = $25,000
  Add EIDL loan of $10,000 = $35,000
  Maximum loan amount is $35,000

- Example 4 - Some employees make more than $100,000, outstanding EIDL loan of $10,000.
  Annual payroll: $1,500,000
  Subtract compensation amounts in excess of an annual salary of $100,000: $1,200,000
  Average monthly qualifying payroll: $100,000
  Multiply by 2.5 = $250,000
  Add EIDL loan of $10,000 = $260,000

First State Bank Southwest
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Maximum loan amount is $260,000

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.

Is there anything that is expressly excluded from the definition of payroll costs?

Yes. The Act expressly excludes the following:

- 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 7001and 7003 of the Families First Coronavirus Response Act (Public Law 116–127).

Do independent contractors count as employees for purposes of PPP loan calculations?

No, independent contractors have the ability to apply for a PPP loan on their own so they do not count for purposes of a borrower's PPP loan calculation.

How much of my loan will be forgiven?

You will owe money when your loan is due if you use the loan amount for anything other than payroll costs, mortgage interest, rent, and utilities payments over the 8 weeks after getting the loan.

You will also owe money if you do not maintain your staff and payroll and the corresponding recordkeeping.

- <u>Number of Staff</u>: Your loan forgiveness will be reduced if you decrease your full-time employee headcount.
- <u>Level of Payroll</u>: Your loan forgiveness will also be reduced if you decrease salaries and wages by more than 25% for any employee that made less than $100,000 annualized in 2019.
- <u>Re-Hiring</u>: You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

How can I request loan forgiveness?

You can submit a request to First State Bank Southwest, the lender that is servicing the loan. The request must include documents that verify the number of full-time equivalent employees and pay rates, as well as the payments on eligible mortgage, lease, and utility obligations. You must certify that the documents are true and that you used the forgiveness amount to keep employees and make eligible mortgage interest, rent, and utility payments. The lender must make a decision on the forgiveness within 60 days.

What is the interest rate on a PPP loan?

The interest rate will be 100 basis points or one percent. The Administrator, in consultation with the Secretary, determined that a one percent interest rate is appropriate. First, it provides low cost funds to borrowers to meet eligible payroll costs and other eligible expenses during this temporary period of economic dislocation caused by the coronavirus. Second, for lenders, the 100 basis points offer an attractive interest rate relative to the cost of funding for comparable maturities. For example, the FDIC's weekly national average rate for a 24-month CD deposit product for the week of March 30, 2020 is 42 basis points for non-jumbo and 44 basis points for jumbo (*https://www.fdic.gov/regulations/resources/rates/*). Third, the interest rate is higher than the yield on Treasury securities of comparable maturity. For example, the yield on the Treasury two-year note is approximately 23 basis points. This higher yield combined with the fact that the loans are 100 percent guaranteed by the SBA and the fact that lenders will receive a substantial processing fee from the SBA provides ample inducement for lenders to participate in the PPP.

Is the PPP "first-come, first-served?" Yes.

When do I need to start paying interest on my loan?

All payments are deferred for 6 months; however, interest will continue to accrue over this period.

What will be the maturity date on a PPP loan?

The maturity is two years. While the Act provides that a loan will have a maximum maturity of up to ten years from the date the borrower applies for loan forgiveness (described below), the Administrator, in consultation with the Secretary, determined that a two year loan term is sufficient in light of the temporary economic dislocations caused by the coronavirus. Specifically, the considerable economic disruption caused by the coronavirus is expected to abate well before the two-year maturity date such that borrowers will be able to re-commence business operations and pay off any outstanding balances on their PPP loans.

Can I pay my loan earlier than two years?

Yes. There are no prepayment penalties or fees.

Do I need to pledge any collateral for these loans?

No. No collateral is required.

Do I need to personally guarantee this loan?

No. There is no personal guarantee requirement. ***However, if the proceeds are used for fraudulent purposes, the U.S. government will pursue criminal charges against you.***

What do I need to certify?

As part of your application, you need to certify in good faith that:

- Current economic uncertainty makes the loan necessary to support your ongoing operations.
- The funds will be used to retain workers and maintain payroll or to make mortgage, lease, and utility payments.
- You have not and will not receive another loan under this program.
- You will provide to the lender documentation that verifies the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight weeks after getting this loan.
- Loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities.
- All the information you provided in your application and in all supporting documents and forms is true and accurate. Knowingly making a false statement to get a loan under this program is punishable by law.
- You acknowledge that the lender will calculate the eligible loan amount using the tax documents you submitted. You affirm that the tax documents are identical to those you submitted to the IRS. And you also understand, acknowledge, and agree that the lender can share the tax information with the SBA's authorized representatives, including authorized representatives of the SBA Office of Inspector General, for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

The Paycheck Protection Program is implemented by the Small Business Administration with support from the Department of the Treasury. An important part of this program is the loan forgiveness portion. Please review the SBA's program guidelines at *www.sba.gov* to learn more about this and SBA's other loan programs. Please feel free to call your loan officer should you have any questions.