

PPP Loan Forgiveness FAQs

The information contained in this document is provided for informational purposes only. Please refer to the program rules and the application instructions for additional details. Due to the specific documentation requirements and the need for accuracy, we also recommend that you seek assistance from your accountant or financial advisor.

1. When can my business apply for loan forgiveness?

- a. The forgiveness covered period starts on the date the loan was disbursed and ends on the date you select that is at least 8 weeks after disbursement and not more than 24 weeks after disbursement. You can apply 8 weeks after disbursement as long as you have used all of the loan proceeds for which you are requesting forgiveness. If you decide to wait, you have 10 months to apply from the last day of the covered period. If you fail to do so, you will be required to commence payments based on the full amount of the loan. We recommend applying as soon as you have exhausted your funds and have assembled the necessary documentation.
- b. For second draw loans in excess of \$150M, you must submit your forgiveness application for the first draw loan before or simultaneously with the second draw forgiveness application.

2. What does “covered period” mean?

- a. “Covered Period” begins on the date your PPP loan was disbursed. It ends on the day you select that is at least 8 weeks following the date of disbursement and not more than 24 weeks after disbursement.

3. Are any borrowers eligible for automatic forgiveness?

- a. No. There is no automatic forgiveness available. Borrowers must submit an application in order to request forgiveness of their PPP loan.

4. Which application form should I complete?

- a. It depends. Borrowers with loan amounts up to \$150,000 can use Form 3508S (so long as total loans to all of your affiliates totals less than \$2 million). If you do not qualify for form 3508S, your application form depends on certain factors. Businesses with payroll that did not reduce any wages by more than 25% and did not reduce headcount can also use form 3508EZ. Certain other businesses may also qualify based on the rules outlined on page 1 of the form 3508EZ instructions. These rules, sometimes referred to as “safe harbor” qualifications, are based on the borrower’s inability to re-hire staff due to either a lack of available qualified workers or restrictions due to health and safety mandates. See question 16 below regarding forgiveness limitations. All other borrowers should use the standard form 3508.

5. How do I apply?

- a. Application forms, instructions, and documentation checklists are available on the bank’s website at <https://www.pentucketbank.com/federal-stimulus>. Once you have assembled the necessary information, you can use the bank’s web-based submission portal (which will be available through the above location) to safely upload your files.

6. Where do I find my loan number to enter on the application form?

- a. Your SBA PPP loan number can be found at the top of your SBA Promissory Note. Your lender PPP loan number can be found at the top of the Disbursement Request. Both documents were part of your original loan closing package.

7. When must my business begin making payments?

- a. Loan payments are deferred until the date the SBA remits the forgiveness amount to the Bank. This assumes that you apply for forgiveness within 10 months of the covered period. If you receive full forgiveness, you will not have to make any payments. If you receive partial forgiveness, payments will begin once the forgiveness amount is applied to your loan balance. Note that interest is accruing until either the loan is forgiven (along with the accrued interest) or payments begin.

8. What are the deadlines throughout the forgiveness process?

- a. The covered period in which to use the loan funds is up to 24 weeks from the loan disbursement (see the definition of “covered period” above).
- b. Borrowers have 10 months to submit a forgiveness application
- c. The bank has 60 days from receipt of a complete application to issue a decision to the SBA

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- d. The SBA has up to 90 days to submit the forgiveness amount to the Bank from the date the SBA receives the request for payment from the Bank.

9. What documents do I need to maintain and for how long?

- a. Borrowers that apply using the 3508S form must maintain all supporting documents for payroll and nonpayroll costs and all of the supporting documentation used in completing the application and supporting the certifications. If the loan is over \$50M, the borrower must also maintain records supporting the FTE and Salary/Wage reduction calculations. All employment and payroll records must be maintained for 4 years while all other supporting documentation must be maintained for 3 years after the application is submitted to the lender.
- b. Borrowers that apply using the 3508EZ and 3508 forms need to maintain ALL of the supporting documentation used in completing the application and supporting the certifications. They must maintain the documentation for 6 years after the loan is forgiven or repaid in full.

10. What is the bank required to do when reviewing each Forgiveness Application?

- a. Confirm completion of borrower certifications on the application.
- b. Confirm receipt of the required documentation to aid in verifying payroll and non-payroll costs.
- c. Match certain line items on the application to supporting documentation and verify that the calculations are correct.
- d. The forgiveness application is then submitted to the SBA through an online portal.

11. What costs are eligible for forgiveness?

- a. It depends. Sole-proprietors without payroll, independent contractors, and general partners are only eligible for forgiveness based on 2019 or 2020 net profit/earnings (the year that was used to calculate your loan amount). They are not eligible for benefits or non-payroll costs. See question 15 below for the specific calculation. Businesses with payroll are eligible for the following:
- b. Payroll Costs:
 - i. Cash Compensation (defined in application) paid to employees (gross wages, up to \$100M per employee, max \$15,385 for 8-week period / \$46,154 for 24-week period). Costs that are qualified wages taken into account in determining the Employer Retention Credit are not eligible for forgiveness;
 - ii. Employer contributions for employee group health, life, disability, vision or dental insurance;
 - iii. Employer contributions to employee retirement plans; and
 - iv. Employer paid state and local taxes assessed on employee compensation (SUTA);
 - v. Payroll costs must be paid or incurred during the covered period. Payroll costs incurred during the last pay period of the covered period are eligible for forgiveness if they are paid on or before the next regular payroll date.
- c. Non-payroll costs:
 - i. Business mortgage interest payments on real or personal property* (prepayments are not allowed);
 - ii. Business rent or lease payments on real or personal property* (rent or lease payments to a related party are eligible up to the amount of mortgage interest owed on the property during the covered period);
 - iii. Business utility payments for the distribution of electricity, gas, water, telephone, transportation or internet access*;
 - iv. Covered operations expenditures (defined in application);
 - v. Covered property damage costs not covered by insurance related to the vandalism and looting that occurred in 2020 from public disturbances;
 - vi. Covered supplier costs (defined in application); and
 - vii. Covered worker protection expenditures (defined in application).

*obligations/services must have been in place before 2/15/20. Amounts attributable to a tenant or sub-tenant of the borrower are not eligible for forgiveness.

Costs must be paid during the covered period or incurred and paid on or before the next billing date.

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- 12. Can I use the extended 24-week covered period in order to qualify for forgiveness just based on payroll costs?**
- Yes. Even if you originally intended to seek forgiveness for benefits and non-payroll costs, you can now potentially qualify for full forgiveness based on wage expenses alone. This would simplify your application process and the documentation requirements. However, given the complex tax implications (related to the Employer Retention Credit), it is recommended that you seek advice from your accountant or financial advisor before utilizing this approach.
- 13. Does the payroll period have to line up exactly with the covered period?**
- No. Payroll that is either paid or incurred during the covered period qualifies for forgiveness.
- 14. What percentage can be used for non-payroll costs and still qualify for full forgiveness?**
- Up to 40% (Calculation: Total payroll costs/.6 = Maximum amount of forgiveness). Payroll must comprise at least 60% of your forgiveness amount.
- 15. Are there forgiveness limits for self-employed, general partners and owner-employees own payroll compensation?**
- Yes, in all of these cases “owner compensation replacement” is capped at 2.5 months’ worth of 2019 or 2020 (the year that was used to calculate your loan amount) compensation if you selected a covered period that is at least 2.5 months. If you elect to use a covered period less than 2.5 months, the limit is reduced accordingly. All self-employed borrowers and general partners with no payroll would qualify for full forgiveness using a 2.5 month covered period.
 - Assuming at least a 2.5 month covered period is used, the calculation to determine the amount eligible is $.20833 \times 2019$ or 2020 compensation with a max of \$20,833 per individual in total across all businesses.
 - If schedule C, 2019 or 2020 compensation is equal to net profit (line 31).
 - If you are a general partner, 2019 or 2020 compensation is net earnings from self-employment (Form 1065 K-1 Line 14a reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties multiplied by .9235).
 - C-corporation owner-employees are capped by 2019 or 2020 employee cash compensation and employer retirement and health insurance contributions.
 - S-corporation owner-employees are capped by 2019 or 2020 employee cash compensation and employer retirement contributions but not health insurance because they are already included in their cash compensation.
- 16. Can forgiveness amounts be reduced? Are there exemptions/safe harbors to eliminate the reduction?**
- Yes, the forgiveness amount will be reduced if the business reduces FTE headcount (as compared to the selected reference period) OR reduces individual employee’s salary or hourly wages by more than 25% (as compared to the most recent full quarter before the covered period) during the covered period.
 - Each reduction can be eliminated if the borrower restores their FTE headcount or salary and hourly wage reduction by 12/31/20 or for a PPP loan made after 12/27/20, the last day of the covered period.
 - Each elimination is all or nothing, they cannot be prorated.
 - All PPP loans \$50,000 or less are exempt from the above reduction rules unless the borrowers loans together with its affiliates are \$2MM or more.
 - Additional safe harbors were added including; if the borrower tried to rehire or restore hours and the employee refused the offer, if they were unable to find a qualified individual for an unfilled position, firings for cause, voluntary resignations or requested reductions in hours or if the borrower certifies in good faith that they were unable to operate between 2/15/20 and the covered period at the same level of business activity as before 2/15/20 due to mandates from the government/various health organizations.
- 17. What is an FTE and how do I calculate my number of FTEs?**
- An FTE is a full-time equivalent employee. For purposes of the PPP program it is defined as an employee who works 40 hours or more, on average, each week. Employees working 40 or more hours per week are considered an FTE with a quotient of 1.0. You may calculate the full-time equivalency for employees working less than 40 hours per week in one of two ways. You can only select one method and must apply it consistently. Either:
 - Divide the hours worked by 40 to determine the quotient (e.g. 0.75 for an employee working 30 hours per week), or
 - Use a flat 0.5 for each part-time employee

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Once you have the FTE figure for each employee you can add them up to determine your total number of FTEs at a given point in time.

18. Can the maturity date of the loan be extended if I received a loan before June 5th and have a remaining balance after forgiveness?

- a. All loans made before June 5th retain their 2-year maturity date. However, the flexibility act allows the Bank and borrower to extend a loan to 5 years by mutual agreement.

19. What if the SBA selects the loan for review?

- a. The SBA will notify the bank in writing
- b. The bank must notify the borrower in writing within 5 business days
- c. The bank must submit electronic copies of both the loan origination application and forgiveness application and all supporting documentation used by the borrower (the bank has to request all of the supporting documentation), a signed and certified transcript of the account, a copy of executed note, and any other documents the SBA requests.

20. Are there any rules changes pending?

- a. We are not aware of any significant pending revisions at present, though future changes are possible. We will communicate with you if any further changes are released.



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