

RESPONDING TO THE CORONAVIRUS PANDEMIC

FINDING FORGIVENESS IN YOUR LAW FIRM'S PPP LOAN

An MPF Webinar – May 13, 2020

by

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BIOGRAPHICAL PROFILE

John Remsen, Jr.

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John Remsen, Jr., is widely recognized as one of the country's leading authorities on law firm leadership, management, marketing and business development. Since 1997 TheRemsenGroup has consulted with more than 400 law firms and thousands of law firm leaders to help them develop and implement long-term strategic objectives to improve cohesiveness, profitability and sustainability.

John is a frequent speaker and author on law-firm leadership and marketing topics. He has spoken at national and regional conferences of the Legal Marketing Association, Association of Legal Administrators, American Bar Association, and numerous state and local bar associations. His articles have appeared in dozens of highly respected legal publications, including the ABA Journal, Law Practice Management, Law Practice Today, Law360, Legal Management, Marketing for Lawyers, Marketing the Law Firm, Managing Partner, National Law Review and New York Law Journal.

Since 1988, John has been an active member of the Legal Marketing Association, and he has served as President of LMA's Southeastern Chapter, Executive Editor of Strategies (LMA's newsletter) and a member of LMA's national Board of Directors. He is also an active member of the Association of Legal Administrators and a popular speaker at ALA meetings and conferences.

In 2002, John created The Managing Partner Forum, a highly acclaimed conference series and community for managing partners and law firm leaders. More than 1,200 firm leaders from 900 law firms from 43 states have participated in 26 conferences. In addition, John distributes The MPF Weekly, an electronic newsletter to more than 10,500 firm leaders throughout the U.S., Canada and 28 other countries.

John's influence was underscored when he was inducted as a Fellow of the College of Law Practice Management in 2013, in recognition of his 25 years of demonstrated expertise in law firm leadership and management. Founded in 1994, the College honors those who "inspire excellence and innovation in law practice management." Membership is by invitation only and includes just 200 individuals.

And the College was not alone: in 2016, John was recognized by LawDragon as one of the "Top 100 Consultants and Strategists" to the legal profession; and in 2017, John was recognized as one of the world's top "leaders and influencers" in the business of law by the Association of International Law Firm Networks.

A native of West Palm Beach, Florida, John holds an MBA from The University of Virginia (1985) and a bachelor's degree in Business Administration from the University of Florida (1980). Prior to enrolling in graduate school, John was Executive Director of The Florida Council of 100, an organization comprised of Florida's top CEOs and other business leaders.

October 2019

BIOGRAPHICAL PROFILE

Uri Gutfreund

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Uri Gutfreund is The National Law Firm Practice Leader at Risk Strategies Company, a top 25 national insurance brokerage and The Founder and Moderator of The Managing Partner Round Table™, a regional peer-to-peer professional development group. This unique program has quickly become a leading venue for thought leaders in the legal industry.

At Risk Strategies, Uri is responsible for the development and execution of all insurance and risk management services to the company's law firm clients. He oversees all of law firm specialty areas including: Health, Professional Liability, Property and Casualty, Cyber and EPLI. His practice leadership combines 20 years personal experience with cutting edge innovation remaking law firm insurance programs using the latest technology, peer benchmarking, and real time best practices to serve the company's law firm clients.

He is a Registered Professional Liability Underwriter since 2001 and a frequent speaker and writer on law firm leadership, law firm business practices and insurance and risk management at national and regional conferences.

Selected Publications and Presentations:

- "Everything You Need to Know about Insurance For Your Firm in 60 Minutes," Speaker of the Month, St. Louis, Atlanta, 2016.
- "2015 Tax Deduction Opportunity: 5 Steps to Overpay For Your Professional Liability Insurance," 2015.
- "Is Your Firm the Next Target for Hackers?" Business of Law Conference, 2015.
- "Change or Be Eliminated: Why Every Administrator Should Become a CFO," Business of Law Conference, 2015.
- "Disability Insurance for Law Firms – It's All in the Details," Association of Legal Administrators - Annual Conference Speaker, 2015.
- "Errors, Omissions & Scares-PLI! Professional Liability Insurance Unmasked," Association of Legal Administrators - Annual Conference Speaker, 2014.

- “Buying and Selling a Law Practice,” Westchester Bar Association Speaker, 2014.
- “Suing for your fees: Three insurance considerations to safely collect what’s rightfully yours,” 2013.

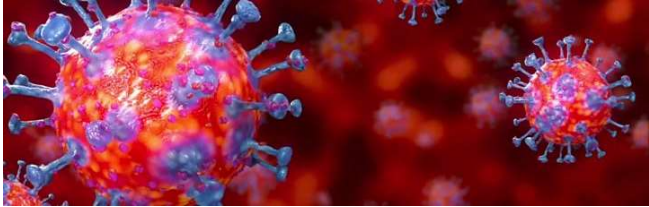
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Responding to the Coronavirus Pandemic

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John Remsen, Jr.

- President, TheRemsenGroup
- President & CEO, Managing Partner Forum
- Strategic Planning, Marketing/Business Development, Firm Retreats, COO/CMO Search
- Speaker:
 - American Bar Association
 - Association of Legal Administrators
 - Legal Marketing Association
 - MPF Annual Conference
 - Law Firm Networks
- Education:
 - MBA – University of Virginia
 - BSBA – University of Florida

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Uri Gutfreund

- National Law Firm Practice Leader, Risk Strategies Company
- Founder, The Managing Partner Roundtable
- Speaker:
 - American Bar Association
 - Association of Legal Administrators
 - Managing Partner Summit
 - MPF Annual Conference
 - Law Firm Networks
- Education:
 - BA – Yeshiva University



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Scott Burke, Esq.

- Managing Partner, Morrison Mahoney LLP
- 190 lawyers
- 10 office locations in Northeastern US
- Member: ALFA International
- Former NYC Prosecutor
- Frequent presenter on trial practice, risk avoidance and legal ethics
- Education:
 - JD – Georgetown University Law Center
 - BA – University of Massachusetts, Amherst



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Daniel Mayo, JD, LLM

- National lead, Federal Tax Policy, Withum
- 500 CPAs (Top 25)
- HLB Global Accounting Network
- Adjunct Professor, Georgetown Univ. Law Center
- Former Chair, ABA Banking and Savings Institutions Tax Committee
- Author and Speaker:
 - US Federal Income Tax, International Tax
- Education:
 - LLM – New York University School of Law
 - JD – Seton Hall University
 - BS-Accounting – Rutgers University



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Lisa R. Murray

- Senior Vice President and Leader, Professionals Banking Group, Citizens Bank
- \$160 Billion in Assets (Top 25)
- Based in Providence, RI
- Legal, Accounting, REITs
- Diversity and Inclusion Initiative
- State Street Bank, Fleet Bank, Shawmut Bank
- Director, Pine Street Inn
- Education:
 - BA-Economics – University of Connecticut



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TODAY'S WEBINAR

- Opening Remarks
- Survey Results
- Finding Forgiveness
- Your Questions
- Up Next: Law Office of The Future - May 27th



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ONLINE SURVEY RESULTS

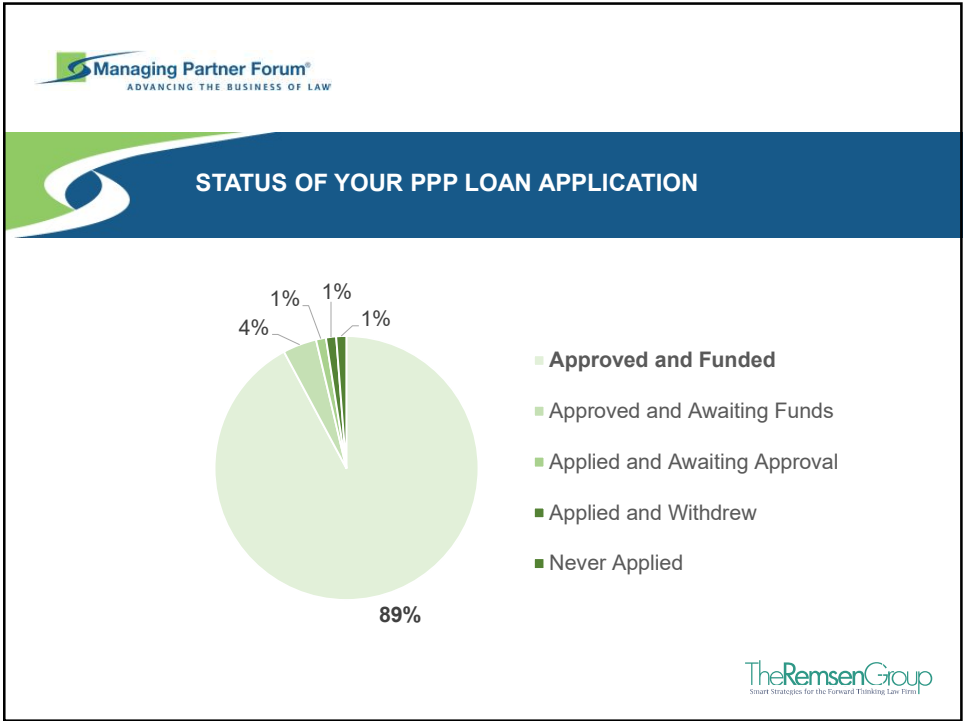
- May 8-12, 2020
- 270 responses
- Four multiple choice questions



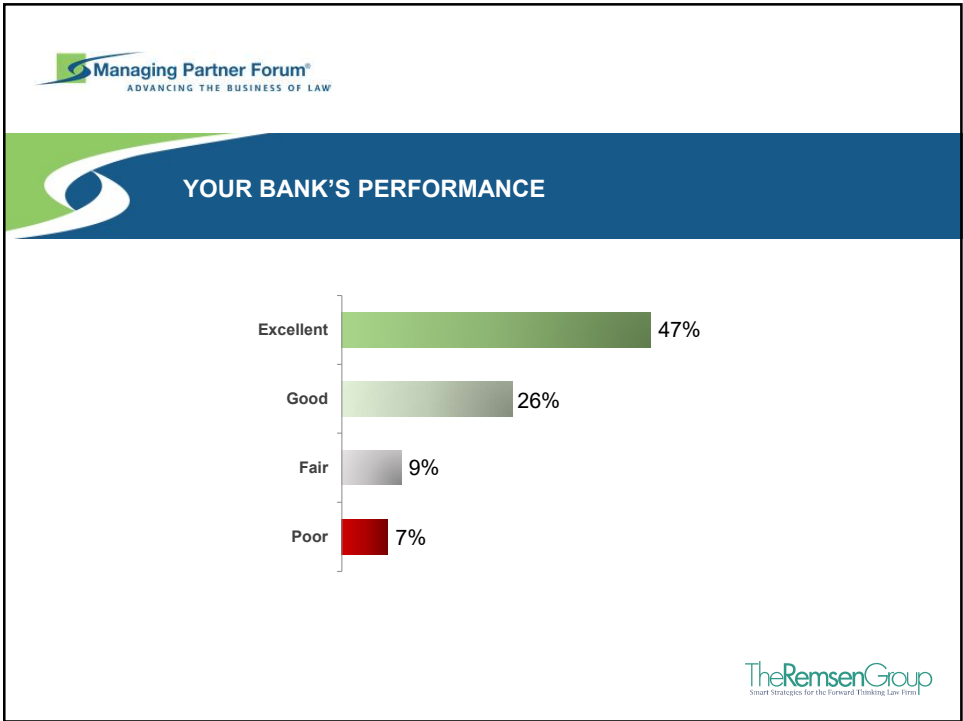
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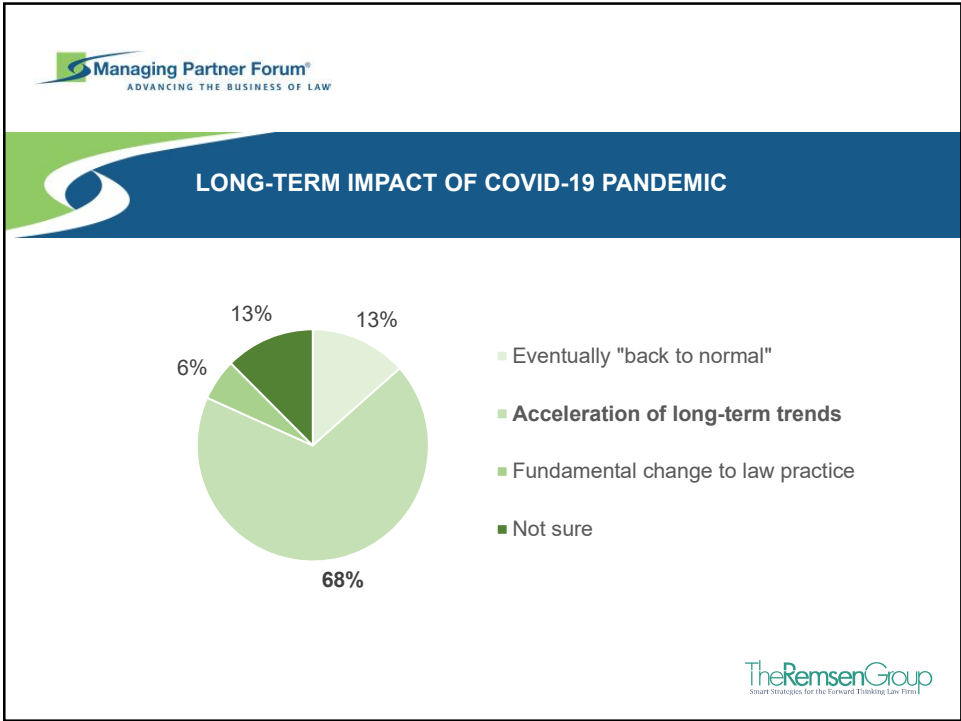
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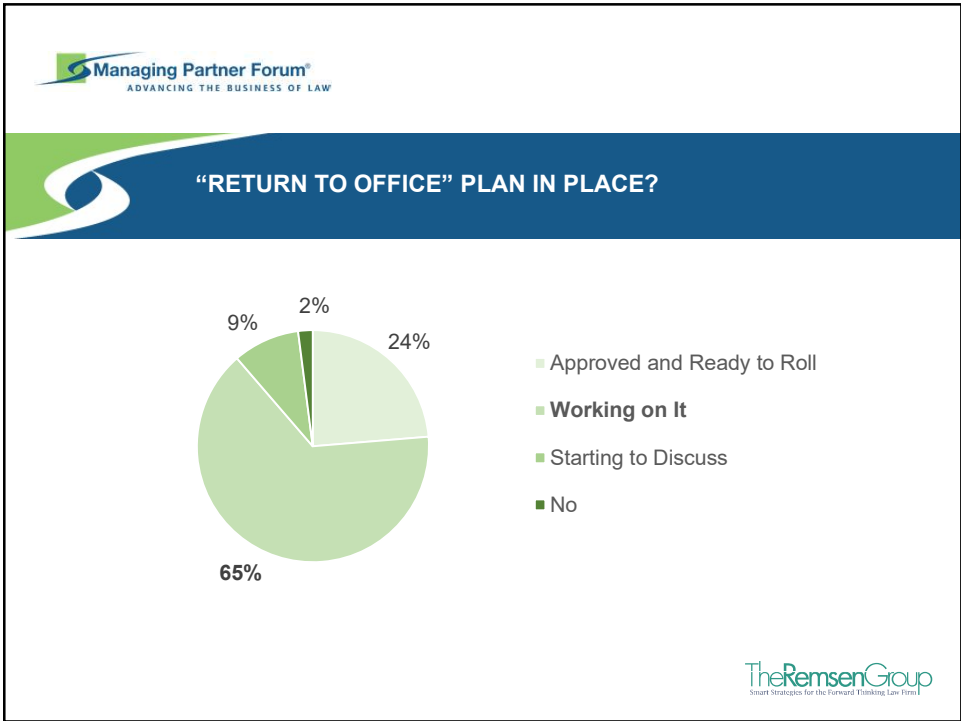
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Presenter



Daniel Mayo, JD, LLM
National Lead, Federal Tax Policy

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PPP Loan Forgiveness

- Guidance expected mid-May
- Forgiveness applies to “costs incurred and payments made” within the 8-week period
- 4 limitations on amount of loan forgiveness
 - Principal amount of loan plus accrued interest
 - No more than 25% of amount forgiven can be for overhead (*i.e.*, non-payroll) costs
 - Headcount reductions
 - Wage reductions
- Elimination of headcount and wage reductions
 - Rehire rule – reductions from 2/15 – 4/26 eliminated if rehired/restored by 6/30/2020
 - SBA FAQ #40 (May 3, 2020) (ER lays off and gives written offer to rehire at comparable wage/hours – no reduction in forgiveness if EE declines offer and ER documents)
- Amount forgiven is tax-free, but no deduction is allowed for expenses relating to the amount forgiven – it’s a wash for tax purposes

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PPP Loan Forgiveness (cont'd)

- Borrower required to submit application to lender (no form or filing deadline prescribed yet)
 - Verify # of FTEs and pay rates for the 8-week period
 - Payroll tax filings reported to IRS (Forms 941)
 - State income, payroll and unemployment insurance filings
 - Canceled checks, payments receipts, transcripts of accounts, and other documents verifying payments on covered overhead (mortgage, rent, and utility payments)
 - Certifications of borrower
 - Documentation submitted is true and correct
 - Amount for which forgiveness is requested was used to retain employees and to pay covered overhead
 - Any other documentation required by SBA or by lender
- Lender will have 60 days to process the application
- FAQ #39 – to ensure borrower was eligible for PPP loan, all PPP loans in excess of \$2 million, and others as appropriate, will be reviewed by SBA before forgiveness is approved

Allowable Uses vs. Forgivable Expenses

	Allowable Uses (during the 2-year term of the loan)	Forgivable Expenses (during the 8-week period)
1	Payroll costs (including salary, wages, retirement benefits, group health care benefits, state and local employment taxes, etc.) for employees whose principal place of residence is in the U.S.	Same (note: salary cap is \$15,385 for the 8-week period)
2	Interest on business mortgage obligations (but not prepayments or principal payments) on real or personal property	Interest on business mortgage obligations (but not prepayments or principal payments) on real or personal property, if the loan was incurred before 2/15/2020
3	Business rent for real and personal property	Business rent for real and personal property, if the lease was in effect before 2/15/2020
4	Business utilities (including electricity, gas, water, transportation, telephone and internet)	Business utilities (including electricity, gas, water, transportation, telephone and internet), if the service was in effect before 2/15/2020
5	Interest in any other debt obligations incurred before 2/15/2020	None
6	Costs related to the continuation of group health care benefits during periods of paid leave, and insurance premiums	None

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Scott Burke, Esq.
Mahoney Morrison LLP



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PPP Forgiveness – The Managing Partner’s Perspective

An eligible recipient shall be eligible for forgiveness of indebtedness on a covered loan in an amount equal to the sum of the following **COSTS INCURRED and PAYMENTS MADE** during the Covered Period:

- (1) Payroll **COSTS**.
- (2) Any **PAYMENT** of interest on any covered mortgage obligation (which shall not include any prepayment of or payment of principal on a covered mortgage obligation).
- (3) Any **PAYMENT** on any covered rent obligation.
- (4) Any covered utility **PAYMENT**.

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PPP Forgiveness – The Managing Partner’s Perspective

- >> Group health, retirement and paid leave are allowed on top of the \$100k cap
- >> Suggest separate checks for rent from other payments to landlord
- >> Bonuses?
 - Hazard Pay, Competition with Unemployment \$600, Make-up for prior reductions
- >> Congress will likely act on tax deductibility of payments
- >> Certification: Zumasys v. U.S. SBA, 8:20-CV-00851 CD CA
- >> “Pigs get fat. Hogs get slaughtered.”



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Lisa R. Murray
Citizens Bank



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PPP – A Banker's View



- PPP launch-A Bank's perspective
- Short term and Medium term priorities to support Clients
 - Short term-get as many funds in the hands of our clients as possible as soon as possible
 - Medium term-what do our firms need and what are the implications of PPP loans on Bank covenants/future cash flow
- The evolution of the curve and the impact on firms and their cash flow:
 - Alphabet soup: V, U, W and what does each mean for your firm and the cash you require to stay viable
- How should the management team be engaging with their Bank during these difficult times?
 - Bank's are better capitalized, more liquid and better prepared to support clients than during the last recession
 - Communicate, Communicate, Communicate with your Banker. Their primary job is to be your voice internally at the Bank and to advocate for your needs.
 - Deal with issues as they arise and have contingency plans in place as dynamics change
 - Be flexible and consistently update your business forecast as economic details and their impact on the firm continue to emerge.

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GUIDANCE FOR FIRM LEADERS

- Demonstrate Care for People, Clients and Community
- Stay Educated and Updated
- Communicate Clearly and Frequently
- Keep Open Communication Lines
- Stay Cool, Calm and Collected
- Refer to the Experts
- Credibility, Reliability, Intimacy



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RESOURCES

- MPF Website – www.ManagingPartnerForum.org
- *The MPF Weekly*
- MPF Webinars and Handouts
- MPF Leadership Conference – Sept 30-Oct 1, 2020
- MPF Listserv and MPIE Conference Calls



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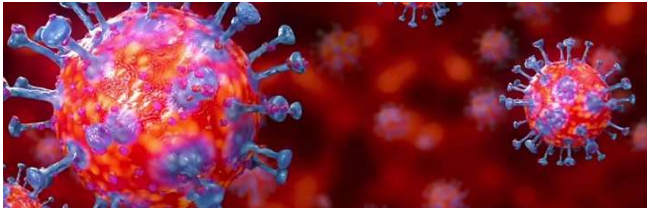
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PAYCHECK PROTECTION PROGRAM LOANS

Frequently Asked Questions (FAQs)

The Small Business Administration (SBA), in consultation with the Department of the Treasury, intends to provide timely additional guidance to address borrower and lender questions concerning the implementation of the Paycheck Protection Program (PPP), established by section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act or the Act). This document will be updated on a regular basis.

Borrowers and lenders may rely on the guidance provided in this document as SBA's interpretation of the CARES Act and of the Paycheck Protection Program Interim Final Rules ("PPP Interim Final Rules") ([link](#)). The U.S. government will not challenge lender PPP actions that conform to this guidance,¹ and to the PPP Interim Final Rules and any subsequent rulemaking in effect at the time.

1. **Question:** Paragraph 3.b.iii of the PPP Interim Final Rule states that lenders must "[c]onfirm the dollar amount of average monthly payroll costs for the preceding calendar year by reviewing the payroll documentation submitted with the borrower's application." Does that require the lender to replicate every borrower's calculations?

Answer: No. Providing an accurate calculation of payroll costs is the responsibility of the borrower, and the borrower attests to the accuracy of those calculations on the Borrower Application Form. Lenders are expected to perform a good faith review, in a reasonable time, of the borrower's calculations and supporting documents concerning average monthly payroll cost. For example, minimal review of calculations based on a payroll report by a recognized third-party payroll processor would be reasonable. In addition, as the PPP Interim Final Rule indicates, lenders may rely on borrower representations, including with respect to amounts required to be excluded from payroll costs.

If the lender identifies errors in the borrower's calculation or material lack of substantiation in the borrower's supporting documents, the lender should work with the borrower to remedy the issue.²

2. **Question:** Are small business concerns (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) required to have 500 or fewer employees to be eligible borrowers in the PPP?

Answer: No. Small business concerns can be eligible borrowers even if they have more than 500 employees, as long as they satisfy the existing statutory and regulatory definition of a "small business concern" under section 3 of the Small Business Act, 15 U.S.C. 632. A business can qualify if it meets the SBA employee-based or revenue-

¹ This document does not carry the force and effect of law independent of the statute and regulations on which it is based.

² Question 1 published April 3, 2020.

As of May 13, 2020

based size standard corresponding to its primary industry. Go to www.sba.gov/size for the industry size standards.

Additionally, a business can qualify for the Paycheck Protection Program as a small business concern if it met both tests in SBA's "alternative size standard" as of March 27, 2020: (1) maximum tangible net worth of the business is not more than \$15 million; and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

A business that qualifies as a small business concern under section 3 of the Small Business Act, 15 U.S.C. 632, may truthfully attest to its eligibility for PPP loans on the Borrower Application Form, unless otherwise ineligible.

3. **Question:** Does my business have to qualify as a small business concern (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) in order to participate in the PPP?

Answer: No. In addition to small business concerns, a business is eligible for a PPP loan if the business has 500 or fewer employees whose principal place of residence is in the United States, or the business meets the SBA employee-based size standards for the industry in which it operates (if applicable). Similarly, PPP loans are also available for qualifying tax-exempt nonprofit organizations described in section 501(c)(3) of the Internal Revenue Code (IRC), tax-exempt veterans organization described in section 501(c)(19) of the IRC, and Tribal business concerns described in section 31(b)(2)(C) of the Small Business Act that have 500 or fewer employees whose principal place of residence is in the United States, or meet the SBA employee-based size standards for the industry in which they operate.

4. **Question:** Are lenders required to make an independent determination regarding applicability of affiliation rules under 13 C.F.R. 121.301(f) to borrowers?

Answer: No. It is the responsibility of the borrower to determine which entities (if any) are its affiliates and determine the employee headcount of the borrower and its affiliates. Lenders are permitted to rely on borrowers' certifications.

5. **Question:** Are borrowers required to apply SBA's affiliation rules under 13 C.F.R. 121.301(f)?

Answer: Yes. Borrowers must apply the affiliation rules set forth in SBA's Interim Final Rule on Affiliation. A borrower must certify on the Borrower Application Form that the borrower is eligible to receive a PPP loan, and that certification means that the borrower is a small business concern as defined in section 3 of the Small Business Act (15 U.S.C. 632), meets the applicable SBA employee-based or revenue-based size standard, or meets the tests in SBA's alternative size standard, after applying the affiliation rules, if applicable. SBA's existing affiliation exclusions apply to the PPP, including, for example the exclusions under 13 CFR 121.103(b)(2).

As of May 13, 2020

6. **Question:** The affiliation rule based on ownership (13 C.F.R. 121.301(f)(1)) states that SBA will deem a minority shareholder in a business to control the business if the shareholder has the right to prevent a quorum or otherwise block action by the board of directors or shareholders. If a minority shareholder irrevocably gives up those rights, is it still considered to be an affiliate of the business?

Answer: No. If a minority shareholder in a business irrevocably waives or relinquishes any existing rights specified in 13 C.F.R. 121.301(f)(1), the minority shareholder would no longer be an affiliate of the business (assuming no other relationship that triggers the affiliation rules).

7. **Question:** The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?

Answer: No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including:

- employer contributions to defined-benefit or defined-contribution retirement plans;
- payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and
- payment of state and local taxes assessed on compensation of employees.

8. **Question:** Do PPP loans cover paid sick leave?

Answer: Yes. PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical, and sick leave. However, the CARES Act excludes 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). Learn more about the Paid Sick Leave Refundable Credit [here](#).

9. **Question:** My small business is a seasonal business whose activity increases from April to June. Considering activity from that period would be a more accurate reflection of my business's operations. However, my small business was not fully ramped up on February 15, 2020. Am I still eligible?

Answer: In evaluating a borrower's eligibility, a lender may consider whether a seasonal borrower was in operation on February 15, 2020 or for an 8-week period between February 15, 2019 and June 30, 2019.

10. **Question:** What if an eligible borrower contracts with a third-party payer such as a payroll provider or a Professional Employer Organization (PEO) to process payroll and report payroll taxes?

Answer: SBA recognizes that eligible borrowers that use PEOs or similar payroll providers are required under some state registration laws to report wage and other data on

the Employer Identification Number (EIN) of the PEO or other payroll provider. In these cases, payroll documentation provided by the payroll provider that indicates the amount of wages and payroll taxes reported to the IRS by the payroll provider for the borrower's employees will be considered acceptable PPP loan payroll documentation. Relevant information from a Schedule R (Form 941), Allocation Schedule for Aggregate Form 941 Filers, attached to the PEO's or other payroll provider's Form 941, Employer's Quarterly Federal Tax Return, should be used if it is available; otherwise, the eligible borrower should obtain a statement from the payroll provider documenting the amount of wages and payroll taxes. In addition, employees of the eligible borrower will not be considered employees of the eligible borrower's payroll provider or PEO.

11. **Question:** May lenders accept signatures from a single individual who is authorized to sign on behalf of the borrower?

Answer: Yes. However, the borrower should bear in mind that, as the Borrower Application Form indicates, only an authorized representative of the business seeking a loan may sign on behalf of the business. An individual's signature as an "Authorized Representative of Applicant" is a representation to the lender and to the U.S. government that the signer is authorized to make the certifications, including with respect to the applicant and each owner of 20% or more of the applicant's equity, contained in the Borrower Application Form. Lenders may rely on that representation and accept a single individual's signature on that basis.

12. **Question:** I need to request a loan to support my small business operations in light of current economic uncertainty. However, I pleaded guilty to a felony crime a very long time ago. Am I still eligible for the PPP?

Answer: Yes. Businesses are only ineligible if an owner of 20 percent or more of the equity of the applicant is presently incarcerated, on probation, on parole; subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or, within the last five years, for any felony, has been convicted; pleaded guilty; pleaded nolo contendere; been placed on pretrial diversion; or been placed on any form of parole or probation (including probation before judgment).

13. **Question:** Are lenders permitted to use their own online portals and an electronic form that they create to collect the same information and certifications as in the Borrower Application Form, in order to complete implementation of their online portals?

Answer: Yes. Lenders may use their own online systems and a form they establish that asks for the same information (using the same language) as the Borrower Application Form. Lenders are still required to send the data to SBA using SBA's interface.

14. **Question:** What time period should borrowers use to determine their number of employees and payroll costs to calculate their maximum loan amounts?

As of May 13, 2020

Answer: In general, borrowers can calculate their aggregate payroll costs using data either from the previous 12 months or from calendar year 2019. For seasonal businesses, the applicant may use average monthly payroll for the period between February 15, 2019, or March 1, 2019, and June 30, 2019. An applicant that was not in business from February 15, 2019 to June 30, 2019 may use the average monthly payroll costs for the period January 1, 2020 through February 29, 2020.

Borrowers may use their average employment over the same time periods to determine their number of employees, for the purposes of applying an employee-based size standard. Alternatively, borrowers may elect to use SBA's usual calculation: the average number of employees per pay period in the 12 completed calendar months prior to the date of the loan application (or the average number of employees for each of the pay periods that the business has been operational, if it has not been operational for 12 months).

15. **Question:** Should payments that an eligible borrower made to an independent contractor or sole proprietor be included in calculations of the eligible borrower's payroll costs?

Answer: No. Any amounts that an eligible borrower has paid to an independent contractor or sole proprietor should be excluded from the eligible business's payroll costs. However, an independent contractor or sole proprietor will itself be eligible for a loan under the PPP, if it satisfies the applicable requirements.

16. **Question:** How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

Answer: Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax. For example, an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, would count as \$4,000 in payroll costs. The employee would receive \$3,500, and \$500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.³

³ The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period," defined as February 15, 2020, to June 30, 2020. As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or withheld from employee wages. Unlike employer-side payroll taxes, such employee-side taxes are ordinarily expressed as a reduction in employee take-home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers

17. **Question:** I filed or approved a loan application based on the version of the PPP Interim Final Rule published on April 2, 2020. Do I need to take any action based on the updated guidance in these FAQs?

Answer: No. Borrowers and lenders may rely on the laws, rules, and guidance available at the time of the relevant application. However, borrowers whose previously submitted loan applications have not yet been processed may revise their applications based on clarifications reflected in these FAQs.

18. **Question:** Are PPP loans for existing customers considered new accounts for FinCEN Rule CDD purposes? Are lenders required to collect, certify, or verify beneficial ownership information in accordance with the rule requirements for existing customers?

Answer: If the PPP loan is being made to an existing customer and the necessary information was previously verified, you do not need to re-verify the information.

Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to BSA compliance.⁴

19. **Question:** Do lenders have to use a promissory note provided by SBA or may they use their own?

Answer: Lenders may use their own promissory note or an SBA form of promissory note.

20. **Question:** The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week period; when does that eight-week period begin?

Answer: The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.⁵

21. **Question:** Do lenders need a separate SBA Authorization document to issue PPP loans?

Answer: No. A lender does not need a separate SBA Authorization for SBA to guarantee a PPP loan. However, lenders must have executed SBA Form 2484 (the

remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period from February 15, 2020, to June 30, 2020, and the period during which borrowers will be subject to the restrictions on allowable uses of the loans may extend beyond that period, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

⁴ Questions 2 – 18 published April 6, 2020.

⁵ Questions 19 – 20 published April 8, 2020.

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Lender Application Form for the Paycheck Protection Program)⁶ to issue PPP loans and receive a loan number for each originated PPP loan. Lenders may include in their promissory notes for PPP loans any terms and conditions, including relating to amortization and disclosure, that are not inconsistent with Sections 1102 and 1106 of the CARES Act, the PPP Interim Final Rules and guidance, and SBA Form 2484.

22. **Question:** I am a non-bank lender that meets all applicable criteria of the PPP Interim Final Rule. Will I be automatically enrolled as a PPP lender? What criteria will SBA and the Treasury Department use to assess whether to approve my application to participate as a PPP lender?

Answer: We encourage lenders that are not currently 7(a) lenders to apply in order to increase the scope of PPP lending options and the speed with which PPP loans can be disbursed to help small businesses across America. We recognize that financial technology solutions can promote efficiency and financial inclusion in implementing the PPP. Applicants should submit SBA Form 3507 and the relevant attachments to NFRLApplicationForPPP@sba.gov. Submission of the SBA Form 3507 does not result in automatic enrollment in the PPP. SBA and the Treasury Department will evaluate each application from a non-bank or non-insured depository institution lender and determine whether the applicant has the necessary qualifications to process, close, disburse, and service PPP loans made with SBA's guarantee. SBA may request additional information from the applicant before making a determination.

23. **Question:** How do the \$10 million cap and affiliation rules work for franchises?

Answer: If a franchise brand is listed on the SBA Franchise Directory, each of its franchisees that meets the applicable size standard can apply for a PPP loan. (The franchisor does not apply on behalf of its franchisees.) The \$10 million cap on PPP loans is a limit per franchisee entity, and each franchisee is limited to one PPP loan.

Franchise brands that have been denied listing on the Directory because of affiliation between franchisor and franchisee may request listing to receive PPP loans. SBA will not apply affiliation rules to a franchise brand requesting listing on the Directory to participate in the PPP, but SBA will confirm that the brand is otherwise eligible for listing on the Directory.

24. **Question:** How do the \$10 million cap and affiliation rules work for hotels and restaurants (and any business assigned a North American Industry Classification System (NAICS) code beginning with 72)?

Answer: Under the CARES Act, any single business entity that is assigned a NAICS code beginning with 72 (including hotels and restaurants) and that employs not more than 500 employees per physical location is eligible to receive a PPP loan.

⁶ This requirement is satisfied by a lender when the lender completes the process of submitting a loan through the E-Tran system; no transmission or retention of a physical copy of Form 2484 is required.

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In addition, SBA's affiliation rules (13 CFR 121.103 and 13 CFR 121.301) do not apply to any business entity that is assigned a NAICS code beginning with 72 and that employs not more than a total of 500 employees. As a result, if each hotel or restaurant location owned by a parent business is a separate legal business entity, each hotel or restaurant location that employs not more than 500 employees is permitted to apply for a separate PPP loan provided it uses its unique EIN.

The \$10 million maximum loan amount limitation applies to each eligible business entity, because individual business entities cannot apply for more than one loan. The following examples illustrate how these principles apply.

Example 1. Company X directly owns multiple restaurants and has no affiliates.

- Company X may apply for a PPP loan if it employs 500 or fewer employees per location (including at its headquarters), even if the total number of employees employed across all locations is over 500.

Example 2. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y and Company Z each own a single restaurant with 500 or fewer employees.

- Company Y and Company Z can each apply for a separate PPP loan, because each has 500 or fewer employees. The affiliation rules do not apply, because Company Y and Company Z each has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).

Example 3. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y owns a restaurant with 400 employees. Company Z is a construction company with 400 employees.

- Company Y is eligible for a PPP loan because it has 500 or fewer employees. The affiliation rules do not apply to Company Y, because it has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).
- The waiver of the affiliation rules does not apply to Company Z, because Company Z is in the construction industry. Under SBA's affiliation rules, 13 CFR 121.301(f)(1) and (3), Company Y and Company Z are affiliates of one another because they are under the common control of Company X, which wholly owns both companies. This means that the size of Company Z is determined by adding its employees to those of Companies X and Y. Therefore, Company Z is deemed to have more than 500 employees, together with its affiliates. However, Company Z may be eligible to receive a PPP loan as a small business concern if it, together with Companies X and Y, meets SBA's other applicable size standards," as explained in FAQ #2.

25. **Question:** Does the information lenders are required to collect from PPP applicants regarding every owner who has a 20% or greater ownership stake in the applicant business (i.e., owner name, title, ownership %, TIN, and address) satisfy a lender's obligation to collect beneficial ownership information (which has a 25% ownership threshold) under the Bank Secrecy Act?

Answer:

For lenders with existing customers: With respect to collecting beneficial ownership information for owners holding a 20% or greater ownership interest, if the PPP loan is being made to an existing customer and the lender previously verified the necessary information, the lender does not need to re-verify the information. Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected such beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to Bank Secrecy Act (BSA) compliance.

For lenders with new customers: For new customers, the lender's collection of the following information from all natural persons with a 20% or greater ownership stake in the applicant business will be deemed to satisfy applicable BSA requirements and FinCEN regulations governing the collection of beneficial ownership information: owner name, title, ownership %, TIN, address, and date of birth. If any ownership interest of 20% or greater in the applicant business belongs to a business or other legal entity, lenders will need to collect appropriate beneficial ownership information for that entity. If you have questions about requirements related to beneficial ownership, go to <https://www.fincen.gov/resources/statutes-and-regulations/cdd-final-rule>. Decisions regarding further verification of beneficial ownership information collected from new customers should be made pursuant to the lender's risk-based approach to BSA compliance.⁷

26. **Question:** SBA regulations require approval by SBA's Standards of Conduct Committee (SCC) for SBA Assistance, other than disaster assistance, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest is: a current SBA employee; a Member of Congress; an appointed official or employee of the legislative or judicial branch; a member or employee of an SBA Advisory Council or SCORE volunteer; or a household member of any of the preceding individuals. Do these entities need the approval of the SCC in order to be eligible for a PPP loan?

Answer: The SCC has authorized a blanket approval for PPP loans to such entities so that further action by the SCC is not necessary in the PPP program.

27. **Question:** SBA regulations require a written statement of no objection by the pertinent Department or military service before it provides any SBA Assistance, other than disaster loans, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest, or if a household member of any of the preceding individuals, is an employee of another Government Department or Agency having a grade of at least GS-13 or its equivalent. Does this requirement apply to PPP loans?

⁷ Questions 21 – 25 published April 13, 2020.

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Answer: No. The SCC has determined that a written statement of no objection is not required from another Government Department or Agency for PPP loans.

28. **Question:** Is a lender permitted to submit a PPP loan application to SBA through E-Tran before the lender has fulfilled its responsibility to review the required borrower documentation and calculation of payroll costs?

Answer: No. Before a lender submits a PPP loan through E-Tran, the lender must have collected the information and certifications contained in the Borrower Application Form and the lender must have fulfilled its obligations set forth in paragraphs 3.b.(i)-(iii) of the PPP Interim Final Rule. Please refer to the Interim Final Rule and FAQ #1 for more information on the lender's responsibility regarding confirmation of payroll costs.

Lenders who did not understand that these steps are required before submission to E-Tran need not withdraw applications submitted to E-Tran before April 14, 2020, but must fulfill lender responsibilities with respect to those applications as soon as practicable and no later than loan closing.⁸

29. **Question:** Can lenders use scanned copies of documents or E-signatures or E-consents permitted by the E-sign Act?

Answer: Yes. All PPP lenders may accept scanned copies of signed loan applications and documents containing the information and certifications required by SBA Form 2483 and the promissory note used for the PPP loan. Additionally, lenders may also accept any form of E-consent or E-signature that complies with the requirements of the Electronic Signatures in Global and National Commerce Act (P.L. 106-229).

If electronic signatures are not feasible, when obtaining a wet ink signature without in-person contact, lenders should take appropriate steps to ensure the proper party has executed the document.

This guidance does not supersede signature requirements imposed by other applicable law, including by the lender's primary federal regulator.⁹

30. **Question:** Can a lender sell a PPP loan into the secondary market?

Answer: Yes. A PPP loan may be sold into the secondary market at any time after the loan is fully disbursed. A secondary market sale of a PPP loan does not require SBA approval. A PPP loan sold into the secondary market is 100% SBA guaranteed. A PPP loan may be sold on the secondary market at a premium or a discount to par value.¹⁰

⁸ Questions 26 – 28 published April 14, 2020.

⁹ Question 29 published April 15, 2020.

¹⁰ Question 30 published April 17, 2020.

31. **Question:** Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

Answer: In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.

Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.¹¹

32. **Question:** Does the cost of a housing stipend or allowance provided to an employee as part of compensation count toward payroll costs?

Answer: Yes. Payroll costs includes all cash compensation paid to employees, subject to the \$100,000 annual compensation per employee limitation.

33. **Question:** Is there existing guidance to help PPP applicants and lenders determine whether an individual employee's principal place of residence is in the United States?

Answer: PPP applicants and lenders may consider IRS regulations (26 CFR § 1.121-1(b)(2)) when determining whether an individual employee's principal place of residence is in the United States.

34. **Question:** Are agricultural producers, farmers, and ranchers eligible for PPP loans?

Answer: Yes. Agricultural producers, farmers, and ranchers are eligible for PPP loans if: (i) the business has 500 or fewer employees, or (ii) the business fits within the revenue-based sized standard, which is average annual receipts of \$1 million.

Additionally, agricultural producers, farmers, and ranchers can qualify for PPP loans as a small business concern if their business meets SBA's "alternative size standard." The

¹¹ Question 31 published April 23, 2020.

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“alternative size standard” is currently: (1) maximum net worth of the business is not more than \$15 million, and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

For all of these criteria, the applicant must include its affiliates in its calculations. [Link](#) to Applicable Affiliation Rules for the PPP.

35. Question: Are agricultural and other forms of cooperatives eligible to receive PPP loans?

Answer: As long as other PPP eligibility requirements are met, small agricultural cooperatives and other cooperatives may receive PPP loans.¹²

36. Question: To determine borrower eligibility under the 500-employee or other applicable threshold established by the CARES Act, must a borrower count all employees or only full-time equivalent employees?

Answer: For purposes of loan eligibility, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.” A borrower must therefore calculate the total number of employees, including part-time employees, when determining their employee headcount for purposes of the eligibility threshold. For example, if a borrower has 200 full-time employees and 50 part-time employees each working 10 hours per week, the borrower has a total of 250 employees.

By contrast, for purposes of loan forgiveness, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.¹³

37. Question: Do businesses owned by private companies with adequate sources of liquidity to support the business’s ongoing operations qualify for a PPP loan?

Answer: See response to FAQ #31.¹⁴

38. Question: Section 1102 of the CARES Act provides that PPP loans are available only to applicants that were “in operation on February 15, 2020.” Is a business that was in operation on February 15, 2020 but had a change in ownership after February 15, 2020 eligible for a PPP loan?

Answer: Yes. As long as the business was in operation on February 15, 2020, if it meets the other eligibility criteria, the business is eligible to apply for a PPP loan regardless of the change in ownership. In addition, where there is a change in ownership effectuated through a purchase of substantially all assets of a business that was in operation on

¹² Questions 32 – 35 published April 24, 2020.

¹³ Questions 36 published April 26, 2020.

¹⁴ Question 37 published April 28, 2020.

February 15, the business acquiring the assets will be eligible to apply for a PPP loan even if the change in ownership results in the assignment of a new tax ID number and even if the acquiring business was not in operation until after February 15, 2020. If the acquiring business has maintained the operations of the pre-sale business, the acquiring business may rely on the historic payroll costs and headcount of the pre-sale business for the purposes of its PPP application, except where the pre-sale business had applied for and received a PPP loan. The Administrator, in consultation with the Secretary, has determined that the requirement that a business “was in operation on February 15, 2020” should be applied based on the economic realities of the business’s operations.

39. Question: Will SBA review individual PPP loan files?

Answer: Yes. In FAQ #31, SBA reminded all borrowers of an important certification required to obtain a PPP loan. To further ensure PPP loans are limited to eligible borrowers in need, the SBA has decided, in consultation with the Department of the Treasury, that it will review all loans in excess of \$2 million, in addition to other loans as appropriate, following the lender’s submission of the borrower’s loan forgiveness application. Additional guidance implementing this procedure will be forthcoming.

The outcome of SBA’s review of loan files will not affect SBA’s guarantee of any loan for which the lender complied with the lender obligations set forth in paragraphs III.3.b(i)-(iii) of the Paycheck Protection Program Rule (April 2, 2020) and further explained in FAQ #1.¹⁵

40. Question: Will a borrower’s PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA’s implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?

Answer: No. As an exercise of the Administrator’s and the Secretary’s authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de minimis exemptions from the Act’s limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act’s loan forgiveness reduction calculation. The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

41. Question: Can a seasonal employer that elects to use a 12-week period between May 1, 2019 and September 15, 2019 to calculate its maximum PPP loan amount under the interim final rule issued by Treasury on April 27, 2020, make all the required certifications on the Borrower Application Form?

¹⁵ Questions 38 – 39 published April 29, 2020.

Answer: Yes. The Borrower Application Form requires applicants to certify that “The Applicant is eligible to receive a loan under the rules in effect at the time this application is submitted that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program.” On April 27, 2020, Treasury issued an interim final rule allowing seasonal borrowers to use an alternative base period for purposes of calculating the loan amount for which they are eligible under the PPP. An applicant that is otherwise in compliance with applicable SBA requirements, and that complies with Treasury’s interim final rule on seasonal workers, will be deemed eligible for a PPP loan under SBA rules. Instead of following the instructions on page 3 of the Borrower Application Form for the time period for calculating average monthly payroll for seasonal businesses, an applicant may elect to use the time period in Treasury’s interim final rule on seasonal workers.

42. **Question:** Do nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code qualify as “nonprofit organizations” under section 1102 of the CARES Act?

Answer: Section 1102 of the CARES Act defines the term “nonprofit organization” as “an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and that is exempt from taxation under section 501(a) of such Code.” The Administrator, in consultation with the Secretary of the Treasury, understands that nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code are unique in that many such hospitals may meet the description set forth in section 501(c)(3) of the Internal Revenue Code to qualify for tax exemption under section 501(a), but have not sought to be recognized by the IRS as such because they are otherwise fully tax-exempt under a different provision of the Internal Revenue Code.

Accordingly, the Administrator will treat a nonprofit hospital exempt from taxation under section 115 of the Internal Revenue Code as meeting the definition of “nonprofit organization” under section 1102 of the CARES Act if the hospital reasonably determines, in a written record maintained by the hospital, that it is an organization described in section 501(c)(3) of the Internal Revenue Code and is therefore within a category of organization that is exempt from taxation under section 501(a).¹⁶ The hospital’s certification of eligibility on the Borrower Application Form cannot be made without this determination. This approach helps accomplish the statutory purpose of ensuring that a broad range of borrowers, including entities that are helping to lead the medical response to the ongoing pandemic, can benefit from the loans provided under the PPP.

¹⁶ This determination need not account for the ancillary conditions set forth in section 501(r) of the Internal Revenue Code and elsewhere associated with securing the tax exemption under that section. Section 501(r) states that a hospital organization shall not be treated as described in section 501(c)(3) unless it meets certain community health and other requirements. However, section 1102 of the CARES Act defines the term “nonprofit organization” solely by reference to section 501(c)(3), and section 501(r) does not amend section 501(c)(3). Therefore, for purposes of the PPP, the requirements of section 501(r) do not apply to the determination of whether an organization is “described in section 501(c)(3).”

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This guidance is solely for purposes of qualification as a “nonprofit organization” under section 1102 of the CARES Act and related purposes of the CARES Act, and does not have any consequences for federal tax law purposes. Nonprofit hospitals should also review all other applicable eligibility criteria, including the *Interim Final Rules on Promissory Notes, Authorizations, Affiliation, and Eligibility* (April 28, 2020) regarding an important limitation on ownership by state or local governments. 85 FR 23450, 23451.¹⁷

43. **Question:** FAQ #31 reminded borrowers to review carefully the required certification on the Borrower Application Form that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” SBA guidance and regulations provide that any borrower who applied for a PPP loan prior to April 24, 2020 and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith. Is it possible for a borrower to obtain an extension of the May 7, 2020 repayment date?

Answer: SBA is extending the repayment date for this safe harbor to May 14, 2020. Borrowers do not need to apply for this extension. This extension will be promptly implemented through a revision to the SBA’s interim final rule providing the safe harbor. SBA intends to provide additional guidance on how it will review the certification prior to May 14, 2020.

44. **Question:** How do SBA’s affiliation rules at 13 C.F.R. 121.301(f) apply with regard to counting the employees of foreign and U.S. affiliates?

Answer: For purposes of the PPP’s 500 or fewer employee size standard, an applicant must count all of its employees and the employees of its U.S and foreign affiliates, absent a waiver of or an exception to the affiliation rules. 13 C.F.R. 121.301(f)(6). Business concerns seeking to qualify as a “small business concern” under section 3 of the Small Business Act (15 U.S.C. 632) on the basis of the employee-based size standard must do the same.¹⁸

45. **Question:** Is an employer that repays its PPP loan by the safe harbor deadline (May 14, 2020) eligible for the Employee Retention Credit?

Answer: Yes. An employer that applied for a PPP loan, received payment, and repays the loan by the safe harbor deadline (May 14, 2020) will be treated as though the employer had not received a covered loan under the PPP for purposes of the Employee Retention Credit. Therefore, the employer will be eligible for the credit if the employer is otherwise an eligible employer for purposes of the credit.¹⁹

¹⁷ Questions 40 – 42 published May 3, 2020.

¹⁸ Questions 43 – 44 published May 5, 2020.

¹⁹ Question 45 published May 6, 2020.

46. **Question:** How will SBA review borrowers' required good-faith certification concerning the necessity of their loan request?

Answer: When submitting a PPP application, all borrowers must certify in good faith that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” SBA, in consultation with the Department of the Treasury, has determined that the following safe harbor will apply to SBA’s review of PPP loans with respect to this issue: Any borrower that, together with its affiliates,²⁰ received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.

SBA has determined that this safe harbor is appropriate because borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers that obtained larger loans. This safe harbor will also promote economic certainty as PPP borrowers with more limited resources endeavor to retain and rehire employees. In addition, given the large volume of PPP loans, this approach will enable SBA to conserve its finite audit resources and focus its reviews on larger loans, where the compliance effort may yield higher returns.

Importantly, borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance. SBA has previously stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by SBA for compliance with program requirements set forth in the PPP Interim Final Rules and in the Borrower Application Form. If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the loan after receiving notification from SBA, SBA will not pursue administrative enforcement or referrals to other agencies based on its determination with respect to the certification concerning necessity of the loan request. SBA’s determination concerning the certification regarding the necessity of the loan request will not affect SBA’s loan guarantee.²¹

²⁰ For purposes of this safe harbor, a borrower must include its affiliates to the extent required under the interim final rule on affiliates, 85 FR 20817 (April 15, 2020).

²¹ Question 46 published May 13, 2020.

PPP and the Enigma of Loan Forgiveness

Principal

May 6, 2020

Updated May 6, 2020

It's been almost a month since we wrote the first installment of our "Enigma" article, and we are happy to provide this latest installment.

We are surprised (and grateful) for the extremely warm reception our article has received, and we thank our readers for sharing their thoughts and insights with us. We think this reflects the importance of the topic to businesses around the country as the first round of forgiveness applications draws near.

Between April 14, 2020, and May 6, 2020, the SBA released a series of interim final rules (IFRs 3, 4, 5, 6, 7, and 8) and frequently asked questions (FAQs – 45 in total), as well as guidance in other formats. Yes, it is dizzying to keep track of it all. The guidance does not address directly the questions we posed regarding loan forgiveness, but it does shed some light on our favorite topic.

Here are our most recent observations, along with the details inserted into the original article below.

Question 1a: This new question discusses the requirement that borrowers spend at least 75% of the loan proceeds on payroll costs, and inquires whether this requirement is simply a restatement of the 25% overhead rule or a new gating requirement. See new question 1a below.

Question 2: Updated to reflect our recommendation on how to deal with the paid or incurred issue during the eight-week period. See discussion below.

Question 4: Updated to reflect how the new guidance sheds light on the types of property that are included in rent as a forgivable expense. See discussion below.

Question 6: Updated to reflect the IRS' issuance of Notice 2020-32, which denies borrowers a deduction for expenses that are paid with forgiven funds. See discussion below.

Question 8: Updated to reflect what the new guidance reveals about partners in partnerships and how they are included in forgivable expenses. See discussion below.

Question 11a: This new question deals with the recent phenomenon of workers refusing to return to work because they are making more money sitting on their couch earning unemployment. It discusses the new FAQ addressing laid-off employees and how they factor into the forgiveness calculation if they refuse to return to work. See new question 11a below.

Should I Return My PPP Loan?

Principal

May 13, 2020

May 14, 2020 is the deadline for the SBA's safe harbor period in FAQ #43 and the question on many borrowers' minds is whether they should return the funds.

There are a lot of considerations that bear on whether borrowers met the required standard – that the current economic uncertainty made the loan request necessary to support their ongoing operations. Did they need the loan? Did they have sufficient funds on hand to weather the crisis? Did they have access to capital? Were their forecasts regarding future revenue and expenses reasonable? Did they act in good faith in signing the loan application?

The good news is that none of this matters any longer for borrowers with loans under \$2 million, taking into account PPP loans received by their affiliates. The SBA today issued a new safe harbor in the form of FAQ #46 that states such borrowers “will be deemed to have made the required certification...in good faith.”

Although FAQs represent nonbinding guidance from the SBA, the original guidance that sparked the certification controversy – FAQ #31 – was issued in the same form.

If you have any questions, please contact a member of Withum's SBA Financial Assistance Services Group.

This is great news for borrowers with loans under the \$2 million threshold. Borrowers with loans at or above that amount still have to wrestle with the tough factual issues inherent in the certification.

Below is the full text of FAQ #46. Please reach out to your Withum advisor if you have questions regarding this issue.

46. Question: How will SBA review borrowers' required good-faith certification concerning the necessity of their loan request?

Answer: When submitting a PPP application, all borrowers must certify in good faith that “[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant.” SBA, in consultation with the Department of the Treasury, has determined that the following safe harbor will apply to SBA's review of PPP loans with respect to this issue: Any borrower

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UNITED STATES DISTRICT COURT

FOR THE CENTRAL DISTRICT OF CALIFORNIA

SOUTHERN DIVISION

ZUMASYS, INC.; JBASE
INTERNATIONAL, INC.; and
TOTAL COMPUTING SOLUTIONS,
LLC,

Plaintiffs,

v.

UNITED STATES SMALL BUSINESS
ADMINISTRATION; JOVITA
CARRANZA, in her Official Capacity as
Administrator of the Small Business
Administration; UNITED STATES
DEPARTMENT OF TREASURY; and
STEVEN T. MNUCHIN, in his Official
Capacity as Secretary of the Treasury,

Defendants.

Case No.:

COMPLAINT FOR:

- 1. JUDICIAL REVIEW OF FINAL
AGENCY ACTION [5 U.S.C. §
706];**
- 2. DECLARATORY JUDGMENT
AND INJUNCTIVE RELIEF.**

1 Plaintiffs Zumasys, Inc. (“Zumasys”), jBASE International, Inc. (“jBASE”),
2 and Total Computing Solutions, LLC (“TCS”) (collectively “Plaintiffs”) hereby
3 allege:

4 **JURISDICTION AND VENUE**

5 1. The Court has subject-matter jurisdiction pursuant to 28 U.S.C. § 1331
6 (federal question jurisdiction) because this action raises substantial questions of
7 federal law under the Coronavirus, Aid, Relief, and Economic Security Act, Pub. L.
8 No. 116-136 (2020) (“CARES Act”) and the Small Business Act, 15 U.S.C. § 631,
9 *et seq.*

10 2. The United States has waived sovereign immunity from suit under
11 5 U.S.C. § 702 because Plaintiffs seek review of agency action. This Court has
12 personal jurisdiction over Defendants because Defendants operate and have
13 committed acts in this State and in this district that are the subjects of the claims and
14 injuries set forth herein.

15 3. There is an actual case or controversy within the meaning of 28 U.S.C.
16 §§ 2201 and 2202 between the parties that invokes the jurisdiction of this Court
17 regarding decisions and final agency actions by Defendants that harm Plaintiffs and
18 are subject to review by this Court. Pursuant to 5 U.S.C. § 704, this case is ripe for
19 judicial review.

20 4. Venue in this Court is appropriate under the provisions of 28 U.S.C. §
21 1391(e).

22 **INTRODUCTION**

23 5. The State of California has been affected by a life-threatening global
24 pandemic caused by the COVID-19 virus. The Governor of California declared a
25 state of emergency on March 4, 2020 and issued a stay home order of unlimited
26 duration on March 19, 2020. Many local jurisdictions have also issued stay home
27 orders.

1 6. The state of emergency, and stay home orders, has resulted in the
2 closing of nonessential businesses, rendering millions of California workers idle and
3 causing the widespread furloughing and termination of California workers.

4 7. To save American jobs, stabilize the United States economy, and to
5 provide other assistance during this unprecedented time, the United States Congress
6 passed the CARES Act. Immediately thereafter, the President signed it into law on
7 March 27, 2020. Recognizing its purpose, Congress named Title I of the CARES
8 Act the “Keeping American Workers Paid and Employed Act.” Title I includes the
9 Paycheck Protection Program (“PPP”), 15 U.S.C. § 636(a)(36).

10 8. As its title says, Title I of the CARES Act was designed to encourage
11 businesses to retain employees and keep them on payroll – *without financially*
12 *burdening them*. Stated another way, the PPP was intended to prevent businesses
13 from furloughing or terminating employees. The PPP accomplishes this by making
14 loans available to eligible business and forgiving those loans to the extent the
15 borrower uses the funds to pay payroll and other specified fixed costs. The intent
16 was for a business to keep its employees on its payroll so that American workers
17 could get paid.

18 9. Over one million businesses applied for and obtained PPP funding
19 based on the plain language of the CARES Act. As a direct consequence, businesses
20 did not furlough or terminate employees, but rather, used the PPP funds to “Keep
21 American Workers Paid.” Unfortunately, after receiving PPP funds and using those
22 funds to retain employees and pay other permissible fixed costs as Congress
23 intended, “guidance” was issued by Defendants that directly contradicts and changes
24 the CARES Act in a manner that: (1) deprives employers of their eligibility to obtain
25 loan forgiveness, and (2) places employers in a worse financial position than if they
26 had furloughed or terminated their employees. Specifically, employers that acted in
27 reliance on the CARES Act by obtaining funding and not furloughing or terminating
28

1 their employees, with the expectation the loans would be forgiven, now face the
2 prospect of having to repay the PPP funds with money they either do not have or
3 now must borrow, placing them in a worse financial position than had they never
4 sought the CARES Act funds. The “guidance” is the opposite of what the law
5 intended; that is, to help businesses employ American workers and keep businesses
6 afloat during this Pandemic. Instead, businesses will now be further in debt; debt
7 they otherwise would not have incurred but-for Defendants’ “guidance” reversing
8 the CARES Act.

9 10. This suit seeks a determination that the improper new requirements set
10 forth in the “guidance” are void and must be withdrawn.

11 **THE PARTIES**

12 11. Zumasys is a corporation organized under the laws of the State of
13 California with its principal place of business in San Clemente, California. Zumasys
14 is a privately held small business founded in 2000 and is an information technology
15 company providing software programming services.

16 12. jBASE is a corporation organized under the laws of the State of
17 Delaware and is registered in California as a foreign corporation with its principal
18 place of business in San Clemente, California.

19 13. TCS is a limited liability company organized under the laws of the State
20 of Utah and registered in California as a foreign limited liability company.

21 14. jBASE and TCS are privately held small businesses and wholly-owned
22 subsidiaries of Zumasys. jBASE and TCS are information technology companies.

23 15. Defendant United States Small Business Administration (the “SBA”) is
24 an independent federal agency created and authorized pursuant to 15 U.S.C. § 633
25 *et seq.* The SBA maintains a district office at 5 Hutton Centre Dr., Suite 900, Santa
26 Ana, California, 92707, which is within the Central District of California.

1 16. Defendant Jovita Carranza is sued in her official capacity only as the
2 Administrator of the SBA. Authority to sue the Administrator is granted by 15
3 U.S.C. § 634(b).

4 17. Defendant United States Department of the Treasury is an executive
5 agency of the United States government. The Treasury maintains an office through
6 its Internal Revenue Service bureau at 801 Civic Center Drive W., Santa Ana,
7 California, 92701, which is within the Central District of California.

8 18. Defendant Steven T. Mnuchin is sued in his official capacity only as
9 Secretary of the Treasury.

10 **CLAIMS COMMON TO ALL COUNTS**

11 **The SBA's Administration of Small Business Loans**

12 19. The SBA's authority is derived from the Small Business Act, 15 U.S.C.
13 § 631, *et seq.* Regulations promulgated by the SBA are codified in the Federal
14 Register. The SBA also issues guidance documents for compliance with its
15 regulations and the programs it administers. These guidance documents include
16 publicly available Standard Operating Procedures, Policy Notices, Procedural
17 Notices, and other general guidance.

18 20. Prior to the CARES Act, the SBA's primary program for assisting small
19 businesses was through its authority to provide loan assistance to small business
20 concerns under Sections 7(a) and 7(b) of the Small Business Act, 15 U.S.C. § 636(a).
21 The CARES Act amended Section 7(a) of the Small Business Act to establish the
22 PPP on a short-term, emergency basis.

23 21. Section 7(a) SBA loans are to be used for general business purposes.
24 Under ordinary circumstances, the SBA guarantees a loan made by a lender to
25 applicants who have fulfilled the "credit elsewhere" test demonstrating that the
26 desired credit is not otherwise available on reasonable terms from non-governmental
27 sources.

The CARES Act

22. The CARES Act was signed into law on March 27, 2020. Section 1102 of the CARES Act amends the Small Business Act to establish the PPP and allows such loans to any qualifying small business.

23. The principal purpose of the CARES Act is to serve as a *grant* to eligible small businesses to allow them to retain employees and keep them on payroll and to position them (with such employees) to be able to open their doors when safe to do so in a financially stable position.

24. Loans made under the PPP are nonrecourse, 15 U.S.C. § 636(a)(36)(F)(v), and eligible recipients are entitled to loan forgiveness to the extent the borrower uses the funds to pay payroll and other permitted costs. 15 U.S.C. § 9005(b).

25. Under the PPP established by the CARES Act, “any business concern ... shall be eligible to receive a covered loan if the business concern ... employs not more than ... 500 employees.” 15 U.S.C. § 636(a)(36)(D)(i).

26. In evaluating the eligibility of a borrower for a PPP loan, a lender is to consider whether the borrower: (1) was in operation on February 15, 2020; (2) had employees for whom the borrower paid salaries and payroll taxes; or (3) paid independent contractors. 15 U.S.C. § 636(a)(36)(F)(ii)(II).

27. The CARES Act requires that an eligible recipient applying for a covered loan make a good faith certification:

(I) that the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient;

(II) acknowledging that funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments;

(III) that the eligible recipient does not have an application pending for a loan under this subsection for the same purpose and duplicative of amounts applied for or received under a covered loan; and

(IV) during the period beginning on February 15, 2020 and ending on December 31, 2020, that the eligible recipient has not received amounts under this subsection for the same purpose and duplicative of amounts applied for or received under a covered loan.

15 U.S.C. § 636(a)(36)(G)(i).

28. Ordinarily the SBA will not issue a loan to a small business that has access to another line of credit. Specifically:

The Administrator has the authority to direct, and conduct oversight for, the methods by which lenders determine whether a borrower is able to obtain credit elsewhere. ***No financial assistance shall be extended pursuant to this subsection if the applicant can obtain credit elsewhere.*** No immediate participation may be purchased unless it is shown that a deferred participation is not available; and no direct financing may be made unless it is shown that a participation is not available.

15 U.S.C. § 636(a)(1)(A)(i) (emphasis added).

29. Section 3(h) of the Small Business Act defines “credit elsewhere” as follows:

The term “credit elsewhere” means--

(1) for the purposes of this chapter (except as used in section 636(b) of this title), the availability of credit on reasonable terms and conditions to the individual loan applicant from non-Federal, non-State, or non-local government sources, considering factors associated with conventional lending practices, including--

(A) the business industry in which the loan applicant operates;

(B) whether the loan applicant is an enterprise that has been in operation for a period of not more than 2 years;

(C) the adequacy of the collateral available to secure the requested loan;

(D) the loan term necessary to reasonably assure the ability of the loan applicant to repay the debt from the actual or projected cash flow of the business; and

(E) any other factor relating to the particular credit application, as documented in detail by the lender, that cannot be overcome except through obtaining a Federal loan guarantee under prudent lending standards; and

(2) for the purposes of section 636(b) of this title, the availability of credit on reasonable terms and conditions from non-Federal sources taking into consideration the prevailing rates and terms in the community in or near where the applicant business concern transacts business, or the applicant homeowner resides, for similar purposes and periods of time.

15 U.S.C. § 632(h).

30. The “credit elsewhere” restriction imposed by the Small Business Act is specifically made *inapplicable* to PPP loans. The CARES Act specifically provides “[d]uring the covered period, the requirement that a small business concern is unable to obtain credit elsewhere as defined in section 3(h), *shall not apply to a covered loan.*” 15 U.S.C. § 636(a)(36)(I) (emphasis added).

Plaintiffs Secure Paycheck Protection Program Loans

31. Zumasys is a small, privately held business with fewer than 50 employees.

32. To avoid furloughing or terminating employees, Zumasys applied for a PPP loan through Sunwest Bank on or about April 7, 2020.

33. Zumasys is eligible to participate in the PPP pursuant to the express terms of the CARES Act.

1 34. Zumasys was awarded a PPP loan in the amount of \$521,500 on or
2 about April 14, 2020.

3 35. Zumasys has used loan funds to satisfy its payroll obligations and pay
4 other permitted fixed costs allowed under the PPP.

5 36. jBASE is a small, privately held business with fewer than 10
6 employees.

7 37. To avoid furloughing or terminating employees, jBASE applied for a
8 PPP loan through Sunwest Bank on or about April 3, 2020.

9 38. jBASE is eligible to participate in the PPP pursuant to the express
10 terms of the CARES Act.

11 39. jBASE was awarded a PPP loan in the amount of \$77,029 on or about
12 April 15, 2020.

13 40. jBASE has used loan funds to satisfy its payroll obligations and pay
14 other fixed costs allowed under the PPP.

15 41. TCS is a small, privately held business with fewer than 10 employees.

16 42. To avoid furloughing or terminating employees, TCS applied for a PPP
17 loan through Sunwest Bank on or about April 3, 2020.

18 43. TCS is eligible to participate in the PPP pursuant to the express terms
19 of the CARES Act.

20 44. TCS was awarded a PPP loan in the amount of \$152,830 on or about
21 April 14, 2020.

22 45. TCS has used loan funds to satisfy its payroll obligations and pay other
23 fixed costs allowed under the PPP.

24 **SBA/Treasury Issues FAQ 31 and FAQ 37**

25 46. On April 23, 2020, the SBA, in consultation with the Treasury, updated
26 its "Paycheck Protection Program Loans Frequently Asked Questions" (the "FAQ").
27
28

1 The current version of the FAQ, published on May 3, 2020, is attached as Exhibit
2 A.¹

3 47. The SBA and Treasury identify the purpose of the FAQ as follows:

4 The Small Business Administration (SBA), in consultation with
5 the Department of the Treasury, intends to provide timely
6 additional guidance to address borrower and lender questions
7 concerning the implementation of the Paycheck Protection
8 Program (PPP), established by section 1102 of the Coronavirus
9 Aid, Relief, and Economic Security Act (CARES Act or the Act).
10 This document will be updated on a regular basis.

11 ***Borrowers and lenders may rely on the guidance provided in
12 this document as SBA's interpretation of the CARES Act and
13 of the Paycheck Protection Program Interim Final Rule ("PPP
14 Interim Final Rule").*** The U.S. government will not challenge
15 lender PPP actions that conform to this guidance,^[2] and to the
16 PPP Interim Final Rule and any subsequent rulemaking in effect
17 at the time. (Emphasis added.)

18 48. FAQ 31 states:

19 **31.Question:** Do businesses owned by large companies with
20 adequate sources of liquidity to support the business's ongoing
21 operations qualify for a PPP loan?

22 **Answer:** In addition to reviewing applicable affiliation rules to
23 determine eligibility, all borrowers must assess their economic
24 need for a PPP loan under the standard established by the
25 CARES Act and the PPP regulations at the time of the loan
26 application. Although the CARES Act suspends the ordinary
27 requirement that borrowers must be unable to obtain credit
28 elsewhere (as defined in section 3(h) of the Small Business Act),
29 borrowers still must certify in good faith that their PPP loan
30 request is necessary. Specifically, before submitting a PPP
31 application, all borrowers should review carefully the required

32 ¹ <https://home.treasury.gov/system/files/136/Paycheck-Protection-Program-Frequently-Asked-Questions.pdf>

33 ² This footnote appears as Footnote 1 of the FAQ and states: "This document does
34 not carry the force and effect of law independent of the statute and regulations on
35 which it is based."

1 certification that “[c]urrent economic uncertainty makes this loan
 2 request necessary to support the ongoing operations of the
 3 Applicant.” Borrowers must make this certification in good faith,
 4 taking into account their current business activity and their
 5 ability *to access other sources of liquidity* sufficient to support
 6 their ongoing operations in a manner that is not significantly
 7 detrimental to the business. For example, it is unlikely that a
 8 public company with substantial market value and access to
 9 capital markets will be able to make the required certification in
 10 good faith, and such a company should be prepared to
 11 demonstrate to SBA, upon request, the basis for its certification.

12 Lenders may rely on a borrower’s certification regarding the
 13 necessity of the loan request. Any borrower that applied for a
 14 PPP loan prior to the issuance of this guidance and repays the
 15 loan in full by May 7, 2020 will be deemed by SBA to have made
 16 the required certification in good faith. (Emphasis added)

17 49. On April 28, 2020, the SBA, in consultation with the Treasury, further
 18 updated its Frequently Asked Questions page to include FAQ 37, which states:

19 **37.Question:** Do businesses owned by private companies with
 20 adequate *sources of liquidity* to support the business’s ongoing
 21 operations qualify for a PPP loan? (emphasis added)

22 **Answer:** See response to FAQ #31.

23 50. The SBA and Treasury interpretation of the CARES Act, as set forth
 24 above, purports to re-impose the “credit elsewhere” requirement normally applied to
 25 SBA loans in direct contravention of 15 U.S.C. § 636(a)(36)(I), which states that
 26 “[d]uring the covered period, the requirement that a small business concern is unable
 27 to obtain credit elsewhere as defined in section 3(h), shall not apply to a covered
 28 loan.”

51. Plaintiffs have access to other credit facilities, but the uncertainty of
 current economic conditions, and purpose of the PPP, caused Plaintiffs to request
 PPP loan funds to support ongoing operations. Plaintiffs would not have gone into

1 debt with the other credit facilities, but consistent with the intent of the CARES Act,
 2 they obtained forgivable funds to keep American workers employed. Specifically,
 3 loans issued under the PPP are treated as a *grant* if certain conditions are met and
 4 Plaintiffs are taking all steps necessary to satisfy those conditions. It is only under
 5 the PPP that Plaintiffs can access liquidity necessary to retain employees in a manner
 6 that is not significantly detrimental to their business, that is, not incurring debt.

7 52. Under the express provisions of the CARES Act, Plaintiffs are eligible
 8 borrowers entitled to participate in the PPP notwithstanding their access to “credit
 9 elsewhere.”

10 53. FAQ 31 and FAQ 37 purport to deny Plaintiffs’ eligibility to participate
 11 in the PPP in direct contravention of 15 U.S.C. § 636(a)(36)(I).

12 54. Contrary to the law, a consequence to Plaintiffs is that since some of
 13 the PPP funds have already been used to retain employees, and if they are now
 14 required to repay those funds pursuant to the “guidance,” they will have to go into
 15 debt, thereby damaging their financial stability.

16 **FIRST CAUSE OF ACTION**

17 **Judicial Review of Final Agency Action (5 U.S.C. § 706)**

18 **(As to All Defendants)**

19 55. Plaintiffs re-allege and incorporate by reference each of the numerical
 20 paragraphs both above and below as if fully set forth herein.

21 56. Under the Administrative Procedures Act (“APA”), a reviewing court
 22 shall “hold unlawful and set aside agency action, findings, and conclusions found to
 23 be ... not in accordance with the law” or “in excess of statutory ... authority.”
 24 5 U.S.C. § 706(2)(A) and (C).

25 57. FAQ 31 and FAQ 37 promulgated by Defendants are not in accordance
 26 with the law and exceed Defendants’ authority under the CARES Act. Specifically,
 27 FAQ 31 and FAQ 37 purport to re-impose the credit elsewhere requirement on
 28

1 Payroll Protection Program loans in direct contravention of 15 U.S.C. §
2 636(a)(36)(I), which directs that “[d]uring the covered period, the requirement that
3 a small business concern is unable to obtain credit elsewhere as defined in section
4 3(h), shall not apply to a covered loan.”

5 58. Defendants lacked authority to promulgate FAQ 31 and FAQ 37
6 precluding borrowers from being eligible recipients of PPP loans if they arguably
7 have access to other sources of credit. This action by Defendants constituted an
8 improper, and legally impermissible, underground regulation.

9 59. Plaintiffs are likely to succeed on the merits of their First Cause of
10 Action.

11 60. Plaintiffs have suffered and will continue to suffer irreparable harm in
12 the absence of injunctive relief enjoining Defendants from making any
13 determinations of ineligibility based on the new requirements imposed by FAQ 31
14 and FAQ 37.

15 61. Defendants will suffer no injury if the Court grants the preliminary
16 injunctive relief that Plaintiffs seek.

17 62. The public interest will be served if the Court grants the preliminary
18 injunctive relief that Plaintiffs seek.

19 **SECOND CAUSE OF ACTION**

20 **Declaratory Judgment and Preliminary and Permanent Injunction**

21 **(28 U.S.C. §§ 2201 and 2202)**

22 **(As to All Defendants)**

23 63. Plaintiffs re-allege and incorporate by reference each of the numerical
24 paragraphs both above and below as if fully set forth herein.

25 64. There is an actual controversy between Plaintiffs and Defendants
26 concerning Plaintiffs’ eligibility to receive loans issued under the PPP as a
27 consequence of FAQ 31 and FAQ 37.
28

1 65. Pursuant to 28 U.S.C. § 2201 this Court may “declare the rights and
2 legal relations of any interested party seeking such declaration, whether or not
3 further relief is or could be sought.”

4 66. FAQ 31 and FAQ 37 promulgated by Defendants are not in accordance
5 with the law and exceed Defendants’ authority under the CARES Act. Specifically,
6 FAQ 31 and FAQ 37 purport to re-impose the credit elsewhere requirement on PPP
7 loans in direct contravention of 15 U.S.C. § 636(a)(36)(I), which directs that
8 “[d]uring the covered period, the requirement that a small business concern is unable
9 to obtain credit elsewhere as defined in section 3(h), shall not apply to a covered
10 loan.”

11 67. Defendants lacked authority to promulgate FAQ 31 and FAQ 37
12 precluding borrowers from accepting PPP loans if they arguably have access to other
13 sources of credit.

14 68. Accordingly, Plaintiffs seek a declaration that FAQ 31 and FAQ 37 are
15 contrary to law and must be withdrawn.

16 69. Plaintiffs are likely to succeed on the merits of their Second Cause of
17 Action.

18 70. Plaintiffs have suffered and will continue to suffer irreparable harm in
19 the absence of injunctive relief enjoining Defendants from making any
20 determinations of ineligibility based on the requirements imposed by FAQ 31 and
21 FAQ 37.

22 71. Defendants will suffer no injury if the Court grants the preliminary
23 injunctive relief that Plaintiffs seek.

24 72. The public interest will be served if the Court grants the preliminary
25 injunctive relief that Plaintiffs seek.

26 ///

27 ///

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for Judgment against Defendants as follows:

1. For preliminary and permanent injunctive relief enjoining Defendants, as well as their employees, agents and representatives, including the SBA's lending banks, from enforcing or utilizing in any fashion or manner whatsoever, FAQ 31 and FAQ 37 in regard to eligibility for loans or loan forgiveness under the Payroll Protection Program of the CARES Act.
2. As part of those orders, order Defendants, as well as their employees, agents and representatives, to notify, as expeditiously as possible, all SBA lending banks to immediately discontinue utilizing FAQ 31 and FAQ 37 as criteria for determining PPP loan eligibility, and to fully process all PPP loan applications without reference to FAQ 31 or FAQ 37;
3. For a judgment setting aside FAQ 31 and FAQ 37;
4. For a judgment declaring FAQ 31 and FAQ 37 unlawful;
5. All costs of suit;
6. Such other and further relief as this Court deems just and proper; and
7. Attorneys' fees.

Dated: May 4, 2020

MICHELMAN & ROBINSON, LLP

By: /s/ Mona Z. Hanna
Mona Z. Hanna, Esq.
Todd H. Stitt, Esq.
Reuben A. Ginsburg, Esq.
Jesse J. Contreras, Esq.
Attorneys for Plaintiffs
Zumasys, Inc.,
jBASE International, Inc., and
Total Computing Solutions, LLC

EXHIBIT A

As of May 3, 2020

PAYCHECK PROTECTION PROGRAM LOANS

Frequently Asked Questions (FAQs)

The Small Business Administration (SBA), in consultation with the Department of the Treasury, intends to provide timely additional guidance to address borrower and lender questions concerning the implementation of the Paycheck Protection Program (PPP), established by section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act or the Act). This document will be updated on a regular basis.

Borrowers and lenders may rely on the guidance provided in this document as SBA's interpretation of the CARES Act and of the Paycheck Protection Program Interim Final Rules ("PPP Interim Final Rules") ([link](#)). The U.S. government will not challenge lender PPP actions that conform to this guidance,¹ and to the PPP Interim Final Rules and any subsequent rulemaking in effect at the time.

1. **Question:** Paragraph 3.b.iii of the PPP Interim Final Rule states that lenders must "[c]onfirm the dollar amount of average monthly payroll costs for the preceding calendar year by reviewing the payroll documentation submitted with the borrower's application." Does that require the lender to replicate every borrower's calculations?

Answer: No. Providing an accurate calculation of payroll costs is the responsibility of the borrower, and the borrower attests to the accuracy of those calculations on the Borrower Application Form. Lenders are expected to perform a good faith review, in a reasonable time, of the borrower's calculations and supporting documents concerning average monthly payroll cost. For example, minimal review of calculations based on a payroll report by a recognized third-party payroll processor would be reasonable. In addition, as the PPP Interim Final Rule indicates, lenders may rely on borrower representations, including with respect to amounts required to be excluded from payroll costs.

If the lender identifies errors in the borrower's calculation or material lack of substantiation in the borrower's supporting documents, the lender should work with the borrower to remedy the issue.²

2. **Question:** Are small business concerns (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) required to have 500 or fewer employees to be eligible borrowers in the PPP?

Answer: No. Small business concerns can be eligible borrowers even if they have more than 500 employees, as long as they satisfy the existing statutory and regulatory definition of a "small business concern" under section 3 of the Small Business Act, 15 U.S.C. 632. A business can qualify if it meets the SBA employee-based or revenue-

¹ This document does not carry the force and effect of law independent of the statute and regulations on which it is based.

² Question 1 published April 3, 2020.

As of May 3, 2020

based size standard corresponding to its primary industry. Go to www.sba.gov/size for the industry size standards.

Additionally, a business can qualify for the Paycheck Protection Program as a small business concern if it met both tests in SBA's "alternative size standard" as of March 27, 2020: (1) maximum tangible net worth of the business is not more than \$15 million; and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

A business that qualifies as a small business concern under section 3 of the Small Business Act, 15 U.S.C. 632, may truthfully attest to its eligibility for PPP loans on the Borrower Application Form, unless otherwise ineligible.

3. **Question:** Does my business have to qualify as a small business concern (as defined in section 3 of the Small Business Act, 15 U.S.C. 632) in order to participate in the PPP?

Answer: No. In addition to small business concerns, a business is eligible for a PPP loan if the business has 500 or fewer employees whose principal place of residence is in the United States, or the business meets the SBA employee-based size standards for the industry in which it operates (if applicable). Similarly, PPP loans are also available for qualifying tax-exempt nonprofit organizations described in section 501(c)(3) of the Internal Revenue Code (IRC), tax-exempt veterans organization described in section 501(c)(19) of the IRC, and Tribal business concerns described in section 31(b)(2)(C) of the Small Business Act that have 500 or fewer employees whose principal place of residence is in the United States, or meet the SBA employee-based size standards for the industry in which they operate.

4. **Question:** Are lenders required to make an independent determination regarding applicability of affiliation rules under 13 C.F.R. 121.301(f) to borrowers?

Answer: No. It is the responsibility of the borrower to determine which entities (if any) are its affiliates and determine the employee headcount of the borrower and its affiliates. Lenders are permitted to rely on borrowers' certifications.

5. **Question:** Are borrowers required to apply SBA's affiliation rules under 13 C.F.R. 121.301(f)?

Answer: Yes. Borrowers must apply the affiliation rules set forth in SBA's Interim Final Rule on Affiliation. A borrower must certify on the Borrower Application Form that the borrower is eligible to receive a PPP loan, and that certification means that the borrower is a small business concern as defined in section 3 of the Small Business Act (15 U.S.C. 632), meets the applicable SBA employee-based or revenue-based size standard, or meets the tests in SBA's alternative size standard, after applying the affiliation rules, if applicable. SBA's existing affiliation exclusions apply to the PPP, including, for example the exclusions under 13 CFR 121.103(b)(2).

As of May 3, 2020

6. **Question:** The affiliation rule based on ownership (13 C.F.R. 121.301(f)(1)) states that SBA will deem a minority shareholder in a business to control the business if the shareholder has the right to prevent a quorum or otherwise block action by the board of directors or shareholders. If a minority shareholder irrevocably gives up those rights, is it still considered to be an affiliate of the business?

Answer: No. If a minority shareholder in a business irrevocably waives or relinquishes any existing rights specified in 13 C.F.R. 121.301(f)(1), the minority shareholder would no longer be an affiliate of the business (assuming no other relationship that triggers the affiliation rules).

7. **Question:** The CARES Act excludes from the definition of payroll costs any employee compensation in excess of an annual salary of \$100,000. Does that exclusion apply to all employee benefits of monetary value?

Answer: No. The exclusion of compensation in excess of \$100,000 annually applies only to cash compensation, not to non-cash benefits, including:

- employer contributions to defined-benefit or defined-contribution retirement plans;
- payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums; and
- payment of state and local taxes assessed on compensation of employees.

8. **Question:** Do PPP loans cover paid sick leave?

Answer: Yes. PPP loans covers payroll costs, including costs for employee vacation, parental, family, medical, and sick leave. However, the CARES Act excludes 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). Learn more about the Paid Sick Leave Refundable Credit [here](#).

9. **Question:** My small business is a seasonal business whose activity increases from April to June. Considering activity from that period would be a more accurate reflection of my business's operations. However, my small business was not fully ramped up on February 15, 2020. Am I still eligible?

Answer: In evaluating a borrower's eligibility, a lender may consider whether a seasonal borrower was in operation on February 15, 2020 or for an 8-week period between February 15, 2019 and June 30, 2019.

10. **Question:** What if an eligible borrower contracts with a third-party payer such as a payroll provider or a Professional Employer Organization (PEO) to process payroll and report payroll taxes?

Answer: SBA recognizes that eligible borrowers that use PEOs or similar payroll providers are required under some state registration laws to report wage and other data on

As of May 3, 2020

the Employer Identification Number (EIN) of the PEO or other payroll provider. In these cases, payroll documentation provided by the payroll provider that indicates the amount of wages and payroll taxes reported to the IRS by the payroll provider for the borrower's employees will be considered acceptable PPP loan payroll documentation. Relevant information from a Schedule R (Form 941), Allocation Schedule for Aggregate Form 941 Filers, attached to the PEO's or other payroll provider's Form 941, Employer's Quarterly Federal Tax Return, should be used if it is available; otherwise, the eligible borrower should obtain a statement from the payroll provider documenting the amount of wages and payroll taxes. In addition, employees of the eligible borrower will not be considered employees of the eligible borrower's payroll provider or PEO.

11. **Question:** May lenders accept signatures from a single individual who is authorized to sign on behalf of the borrower?

Answer: Yes. However, the borrower should bear in mind that, as the Borrower Application Form indicates, only an authorized representative of the business seeking a loan may sign on behalf of the business. An individual's signature as an "Authorized Representative of Applicant" is a representation to the lender and to the U.S. government that the signer is authorized to make the certifications, including with respect to the applicant and each owner of 20% or more of the applicant's equity, contained in the Borrower Application Form. Lenders may rely on that representation and accept a single individual's signature on that basis.

12. **Question:** I need to request a loan to support my small business operations in light of current economic uncertainty. However, I pleaded guilty to a felony crime a very long time ago. Am I still eligible for the PPP?

Answer: Yes. Businesses are only ineligible if an owner of 20 percent or more of the equity of the applicant is presently incarcerated, on probation, on parole; subject to an indictment, criminal information, arraignment, or other means by which formal criminal charges are brought in any jurisdiction; or, within the last five years, for any felony, has been convicted; pleaded guilty; pleaded nolo contendere; been placed on pretrial diversion; or been placed on any form of parole or probation (including probation before judgment).

13. **Question:** Are lenders permitted to use their own online portals and an electronic form that they create to collect the same information and certifications as in the Borrower Application Form, in order to complete implementation of their online portals?

Answer: Yes. Lenders may use their own online systems and a form they establish that asks for the same information (using the same language) as the Borrower Application Form. Lenders are still required to send the data to SBA using SBA's interface.

14. **Question:** What time period should borrowers use to determine their number of employees and payroll costs to calculate their maximum loan amounts?

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Answer: In general, borrowers can calculate their aggregate payroll costs using data either from the previous 12 months or from calendar year 2019. For seasonal businesses, the applicant may use average monthly payroll for the period between February 15, 2019, or March 1, 2019, and June 30, 2019. An applicant that was not in business from February 15, 2019 to June 30, 2019 may use the average monthly payroll costs for the period January 1, 2020 through February 29, 2020.

Borrowers may use their average employment over the same time periods to determine their number of employees, for the purposes of applying an employee-based size standard. Alternatively, borrowers may elect to use SBA's usual calculation: the average number of employees per pay period in the 12 completed calendar months prior to the date of the loan application (or the average number of employees for each of the pay periods that the business has been operational, if it has not been operational for 12 months).

15. **Question:** Should payments that an eligible borrower made to an independent contractor or sole proprietor be included in calculations of the eligible borrower's payroll costs?

Answer: No. Any amounts that an eligible borrower has paid to an independent contractor or sole proprietor should be excluded from the eligible business's payroll costs. However, an independent contractor or sole proprietor will itself be eligible for a loan under the PPP, if it satisfies the applicable requirements.

16. **Question:** How should a borrower account for federal taxes when determining its payroll costs for purposes of the maximum loan amount, allowable uses of a PPP loan, and the amount of a loan that may be forgiven?

Answer: Under the Act, payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee's and employer's share of Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax. For example, an employee who earned \$4,000 per month in gross wages, from which \$500 in federal taxes was withheld, would count as \$4,000 in payroll costs. The employee would receive \$3,500, and \$500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the \$4,000 in wages are excluded from payroll costs under the statute.³

³ The definition of "payroll costs" in the CARES Act, 15 U.S.C. 636(a)(36)(A)(viii), excludes "taxes imposed or withheld under chapters 21, 22, or 24 of the Internal Revenue Code of 1986 during the covered period," defined as February 15, 2020, to June 30, 2020. As described above, the SBA interprets this statutory exclusion to mean that payroll costs are calculated on a gross basis, without subtracting federal taxes that are imposed on the employee or withheld from employee wages. Unlike employer-side payroll taxes, such employee-side taxes are ordinarily expressed as a reduction in employee take-home pay; their exclusion from the definition of payroll costs means payroll costs should not be reduced based on taxes imposed on the employee or withheld from employee wages. This interpretation is consistent with the text of the statute and advances the legislative purpose of ensuring workers

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17. **Question:** I filed or approved a loan application based on the version of the PPP Interim Final Rule published on April 2, 2020. Do I need to take any action based on the updated guidance in these FAQs?

Answer: No. Borrowers and lenders may rely on the laws, rules, and guidance available at the time of the relevant application. However, borrowers whose previously submitted loan applications have not yet been processed may revise their applications based on clarifications reflected in these FAQs.

18. **Question:** Are PPP loans for existing customers considered new accounts for FinCEN Rule CDD purposes? Are lenders required to collect, certify, or verify beneficial ownership information in accordance with the rule requirements for existing customers?

Answer: If the PPP loan is being made to an existing customer and the necessary information was previously verified, you do not need to re-verify the information.

Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to BSA compliance.⁴

19. **Question:** Do lenders have to use a promissory note provided by SBA or may they use their own?

Answer: Lenders may use their own promissory note or an SBA form of promissory note.

20. **Question:** The amount of forgiveness of a PPP loan depends on the borrower's payroll costs over an eight-week period; when does that eight-week period begin?

Answer: The eight-week period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. The lender must make the first disbursement of the loan no later than ten calendar days from the date of loan approval.⁵

21. **Question:** Do lenders need a separate SBA Authorization document to issue PPP loans?

Answer: No. A lender does not need a separate SBA Authorization for SBA to guarantee a PPP loan. However, lenders must have executed SBA Form 2484 (the

remain paid and employed. Further, because the reference period for determining a borrower's maximum loan amount will largely or entirely precede the period from February 15, 2020, to June 30, 2020, and the period during which borrowers will be subject to the restrictions on allowable uses of the loans may extend beyond that period, for purposes of the determination of allowable uses of loans and the amount of loan forgiveness, this statutory exclusion will apply with respect to such taxes imposed or withheld at any time, not only during such period.

⁴ Questions 2 – 18 published April 6, 2020.

⁵ Questions 19 – 20 published April 8, 2020.

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Lender Application Form for the Paycheck Protection Program)⁶ to issue PPP loans and receive a loan number for each originated PPP loan. Lenders may include in their promissory notes for PPP loans any terms and conditions, including relating to amortization and disclosure, that are not inconsistent with Sections 1102 and 1106 of the CARES Act, the PPP Interim Final Rules and guidance, and SBA Form 2484.

22. **Question:** I am a non-bank lender that meets all applicable criteria of the PPP Interim Final Rule. Will I be automatically enrolled as a PPP lender? What criteria will SBA and the Treasury Department use to assess whether to approve my application to participate as a PPP lender?

Answer: We encourage lenders that are not currently 7(a) lenders to apply in order to increase the scope of PPP lending options and the speed with which PPP loans can be disbursed to help small businesses across America. We recognize that financial technology solutions can promote efficiency and financial inclusion in implementing the PPP. Applicants should submit SBA Form 3507 and the relevant attachments to NFRLApplicationForPPP@sba.gov. Submission of the SBA Form 3507 does not result in automatic enrollment in the PPP. SBA and the Treasury Department will evaluate each application from a non-bank or non-insured depository institution lender and determine whether the applicant has the necessary qualifications to process, close, disburse, and service PPP loans made with SBA's guarantee. SBA may request additional information from the applicant before making a determination.

23. **Question:** How do the \$10 million cap and affiliation rules work for franchises?

Answer: If a franchise brand is listed on the SBA Franchise Directory, each of its franchisees that meets the applicable size standard can apply for a PPP loan. (The franchisor does not apply on behalf of its franchisees.) The \$10 million cap on PPP loans is a limit per franchisee entity, and each franchisee is limited to one PPP loan.

Franchise brands that have been denied listing on the Directory because of affiliation between franchisor and franchisee may request listing to receive PPP loans. SBA will not apply affiliation rules to a franchise brand requesting listing on the Directory to participate in the PPP, but SBA will confirm that the brand is otherwise eligible for listing on the Directory.

24. **Question:** How do the \$10 million cap and affiliation rules work for hotels and restaurants (and any business assigned a North American Industry Classification System (NAICS) code beginning with 72)?

Answer: Under the CARES Act, any single business entity that is assigned a NAICS code beginning with 72 (including hotels and restaurants) and that employs not more than 500 employees per physical location is eligible to receive a PPP loan.

⁶ This requirement is satisfied by a lender when the lender completes the process of submitting a loan through the E-Tran system; no transmission or retention of a physical copy of Form 2484 is required.

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In addition, SBA's affiliation rules (13 CFR 121.103 and 13 CFR 121.301) do not apply to any business entity that is assigned a NAICS code beginning with 72 and that employs not more than a total of 500 employees. As a result, if each hotel or restaurant location owned by a parent business is a separate legal business entity, each hotel or restaurant location that employs not more than 500 employees is permitted to apply for a separate PPP loan provided it uses its unique EIN.

The \$10 million maximum loan amount limitation applies to each eligible business entity, because individual business entities cannot apply for more than one loan. The following examples illustrate how these principles apply.

Example 1. Company X directly owns multiple restaurants and has no affiliates.

- Company X may apply for a PPP loan if it employs 500 or fewer employees per location (including at its headquarters), even if the total number of employees employed across all locations is over 500.

Example 2. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y and Company Z each own a single restaurant with 500 or fewer employees.

- Company Y and Company Z can each apply for a separate PPP loan, because each has 500 or fewer employees. The affiliation rules do not apply, because Company Y and Company Z each has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).

Example 3. Company X wholly owns Company Y and Company Z (as a result, Companies X, Y, and Z are all affiliates of one another). Company Y owns a restaurant with 400 employees. Company Z is a construction company with 400 employees.

- Company Y is eligible for a PPP loan because it has 500 or fewer employees. The affiliation rules do not apply to Company Y, because it has 500 or fewer employees and is in the food services business (with a NAICS code beginning with 72).
- The waiver of the affiliation rules does not apply to Company Z, because Company Z is in the construction industry. Under SBA's affiliation rules, 13 CFR 121.301(f)(1) and (3), Company Y and Company Z are affiliates of one another because they are under the common control of Company X, which wholly owns both companies. This means that the size of Company Z is determined by adding its employees to those of Companies X and Y. Therefore, Company Z is deemed to have more than 500 employees, together with its affiliates. However, Company Z may be eligible to receive a PPP loan as a small business concern if it, together with Companies X and Y, meets SBA's other applicable size standards," as explained in FAQ #2.

25. **Question:** Does the information lenders are required to collect from PPP applicants regarding every owner who has a 20% or greater ownership stake in the applicant business (i.e., owner name, title, ownership %, TIN, and address) satisfy a lender's obligation to collect beneficial ownership information (which has a 25% ownership threshold) under the Bank Secrecy Act?

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Answer:

For lenders with existing customers: With respect to collecting beneficial ownership information for owners holding a 20% or greater ownership interest, if the PPP loan is being made to an existing customer and the lender previously verified the necessary information, the lender does not need to re-verify the information. Furthermore, if federally insured depository institutions and federally insured credit unions eligible to participate in the PPP program have not yet collected such beneficial ownership information on existing customers, such institutions do not need to collect and verify beneficial ownership information for those customers applying for new PPP loans, unless otherwise indicated by the lender's risk-based approach to Bank Secrecy Act (BSA) compliance.

For lenders with new customers: For new customers, the lender's collection of the following information from all natural persons with a 20% or greater ownership stake in the applicant business will be deemed to satisfy applicable BSA requirements and FinCEN regulations governing the collection of beneficial ownership information: owner name, title, ownership %, TIN, address, and date of birth. If any ownership interest of 20% or greater in the applicant business belongs to a business or other legal entity, lenders will need to collect appropriate beneficial ownership information for that entity. If you have questions about requirements related to beneficial ownership, go to <https://www.fincen.gov/resources/statutes-and-regulations/cdd-final-rule>. Decisions regarding further verification of beneficial ownership information collected from new customers should be made pursuant to the lender's risk-based approach to BSA compliance.⁷

26. **Question:** SBA regulations require approval by SBA's Standards of Conduct Committee (SCC) for SBA Assistance, other than disaster assistance, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest is: a current SBA employee; a Member of Congress; an appointed official or employee of the legislative or judicial branch; a member or employee of an SBA Advisory Council or SCORE volunteer; or a household member of any of the preceding individuals. Do these entities need the approval of the SCC in order to be eligible for a PPP loan?

Answer: The SCC has authorized a blanket approval for PPP loans to such entities so that further action by the SCC is not necessary in the PPP program.

27. **Question:** SBA regulations require a written statement of no objection by the pertinent Department or military service before it provides any SBA Assistance, other than disaster loans, to an entity, if its sole proprietor, partner, officer, director, or stockholder with a 10 percent or more interest, or if a household member of any of the preceding individuals, is an employee of another Government Department or Agency having a grade of at least GS-13 or its equivalent. Does this requirement apply to PPP loans?

⁷ Questions 21 – 25 published April 13, 2020.

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Answer: No. The SCC has determined that a written statement of no objection is not required from another Government Department or Agency for PPP loans.

28. **Question:** Is a lender permitted to submit a PPP loan application to SBA through E-Tran before the lender has fulfilled its responsibility to review the required borrower documentation and calculation of payroll costs?

Answer: No. Before a lender submits a PPP loan through E-Tran, the lender must have collected the information and certifications contained in the Borrower Application Form and the lender must have fulfilled its obligations set forth in paragraphs 3.b.(i)-(iii) of the PPP Interim Final Rule. Please refer to the Interim Final Rule and FAQ #1 for more information on the lender's responsibility regarding confirmation of payroll costs.

Lenders who did not understand that these steps are required before submission to E-Tran need not withdraw applications submitted to E-Tran before April 14, 2020, but must fulfill lender responsibilities with respect to those applications as soon as practicable and no later than loan closing.⁸

29. **Question:** Can lenders use scanned copies of documents or E-signatures or E-consents permitted by the E-sign Act?

Answer: Yes. All PPP lenders may accept scanned copies of signed loan applications and documents containing the information and certifications required by SBA Form 2483 and the promissory note used for the PPP loan. Additionally, lenders may also accept any form of E-consent or E-signature that complies with the requirements of the Electronic Signatures in Global and National Commerce Act (P.L. 106-229).

If electronic signatures are not feasible, when obtaining a wet ink signature without in-person contact, lenders should take appropriate steps to ensure the proper party has executed the document.

This guidance does not supersede signature requirements imposed by other applicable law, including by the lender's primary federal regulator.⁹

30. **Question:** Can a lender sell a PPP loan into the secondary market?

Answer: Yes. A PPP loan may be sold into the secondary market at any time after the loan is fully disbursed. A secondary market sale of a PPP loan does not require SBA approval. A PPP loan sold into the secondary market is 100% SBA guaranteed. A PPP loan may be sold on the secondary market at a premium or a discount to par value.¹⁰

⁸ Questions 26 – 28 published April 14, 2020.

⁹ Question 29 published April 15, 2020.

¹⁰ Question 30 published April 17, 2020.

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31. **Question:** Do businesses owned by large companies with adequate sources of liquidity to support the business's ongoing operations qualify for a PPP loan?

Answer: In addition to reviewing applicable affiliation rules to determine eligibility, all borrowers must assess their economic need for a PPP loan under the standard established by the CARES Act and the PPP regulations at the time of the loan application. Although the CARES Act suspends the ordinary requirement that borrowers must be unable to obtain credit elsewhere (as defined in section 3(h) of the Small Business Act), borrowers still must certify in good faith that their PPP loan request is necessary. Specifically, before submitting a PPP application, all borrowers should review carefully the required certification that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." Borrowers must make this certification in good faith, taking into account their current business activity and their ability to access other sources of liquidity sufficient to support their ongoing operations in a manner that is not significantly detrimental to the business. For example, it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith, and such a company should be prepared to demonstrate to SBA, upon request, the basis for its certification.

Lenders may rely on a borrower's certification regarding the necessity of the loan request. Any borrower that applied for a PPP loan prior to the issuance of this guidance and repays the loan in full by May 7, 2020 will be deemed by SBA to have made the required certification in good faith.¹¹

32. **Question:** Does the cost of a housing stipend or allowance provided to an employee as part of compensation count toward payroll costs?

Answer: Yes. Payroll costs includes all cash compensation paid to employees, subject to the \$100,000 annual compensation per employee limitation.

33. **Question:** Is there existing guidance to help PPP applicants and lenders determine whether an individual employee's principal place of residence is in the United States?

Answer: PPP applicants and lenders may consider IRS regulations (26 CFR § 1.121-1(b)(2)) when determining whether an individual employee's principal place of residence is in the United States.

34. **Question:** Are agricultural producers, farmers, and ranchers eligible for PPP loans?

Answer: Yes. Agricultural producers, farmers, and ranchers are eligible for PPP loans if: (i) the business has 500 or fewer employees, or (ii) the business fits within the revenue-based sized standard, which is average annual receipts of \$1 million.

Additionally, agricultural producers, farmers, and ranchers can qualify for PPP loans as a small business concern if their business meets SBA's "alternative size standard." The

¹¹ Question 31 published April 23, 2020.

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“alternative size standard” is currently: (1) maximum net worth of the business is not more than \$15 million, and (2) the average net income after Federal income taxes (excluding any carry-over losses) of the business for the two full fiscal years before the date of the application is not more than \$5 million.

For all of these criteria, the applicant must include its affiliates in its calculations. [Link](#) to Applicable Affiliation Rules for the PPP.

35. Question: Are agricultural and other forms of cooperatives eligible to receive PPP loans?

Answer: As long as other PPP eligibility requirements are met, small agricultural cooperatives and other cooperatives may receive PPP loans.¹²

36. Question: To determine borrower eligibility under the 500-employee or other applicable threshold established by the CARES Act, must a borrower count all employees or only full-time equivalent employees?

Answer: For purposes of loan eligibility, the CARES Act defines the term employee to include “individuals employed on a full-time, part-time, or other basis.” A borrower must therefore calculate the total number of employees, including part-time employees, when determining their employee headcount for purposes of the eligibility threshold. For example, if a borrower has 200 full-time employees and 50 part-time employees each working 10 hours per week, the borrower has a total of 250 employees.

By contrast, for purposes of loan forgiveness, the CARES Act uses the standard of “full-time equivalent employees” to determine the extent to which the loan forgiveness amount will be reduced in the event of workforce reductions.¹³

37. Question: Do businesses owned by private companies with adequate sources of liquidity to support the business’s ongoing operations qualify for a PPP loan?

Answer: See response to FAQ #31.¹⁴

38. Question: Section 1102 of the CARES Act provides that PPP loans are available only to applicants that were “in operation on February 15, 2020.” Is a business that was in operation on February 15, 2020 but had a change in ownership after February 15, 2020 eligible for a PPP loan?

Answer: Yes. As long as the business was in operation on February 15, 2020, if it meets the other eligibility criteria, the business is eligible to apply for a PPP loan regardless of the change in ownership. In addition, where there is a change in ownership effectuated through a purchase of substantially all assets of a business that was in operation on

¹² Questions 32 – 35 published April 24, 2020.

¹³ Questions 36 published April 26, 2020.

¹⁴ Question 37 published April 28, 2020.

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February 15, the business acquiring the assets will be eligible to apply for a PPP loan even if the change in ownership results in the assignment of a new tax ID number and even if the acquiring business was not in operation until after February 15, 2020. If the acquiring business has maintained the operations of the pre-sale business, the acquiring business may rely on the historic payroll costs and headcount of the pre-sale business for the purposes of its PPP application, except where the pre-sale business had applied for and received a PPP loan. The Administrator, in consultation with the Secretary, has determined that the requirement that a business “was in operation on February 15, 2020” should be applied based on the economic realities of the business’s operations.

39. Question: Will SBA review individual PPP loan files?

Answer: Yes. In FAQ #31, SBA reminded all borrowers of an important certification required to obtain a PPP loan. To further ensure PPP loans are limited to eligible borrowers in need, the SBA has decided, in consultation with the Department of the Treasury, that it will review all loans in excess of \$2 million, in addition to other loans as appropriate, following the lender’s submission of the borrower’s loan forgiveness application. Additional guidance implementing this procedure will be forthcoming.

The outcome of SBA’s review of loan files will not affect SBA’s guarantee of any loan for which the lender complied with the lender obligations set forth in paragraphs III.3.b(i)-(iii) of the Paycheck Protection Program Rule (April 2, 2020) and further explained in FAQ #1.¹⁵

40. Question: Will a borrower’s PPP loan forgiveness amount (pursuant to section 1106 of the CARES Act and SBA’s implementing rules and guidance) be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?

Answer: No. As an exercise of the Administrator’s and the Secretary’s authority under Section 1106(d)(6) of the CARES Act to prescribe regulations granting de minimis exemptions from the Act’s limits on loan forgiveness, SBA and Treasury intend to issue an interim final rule excluding laid-off employees whom the borrower offered to rehire (for the same salary/wages and same number of hours) from the CARES Act’s loan forgiveness reduction calculation. The interim final rule will specify that, to qualify for this exception, the borrower must have made a good faith, written offer of rehire, and the employee’s rejection of that offer must be documented by the borrower. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

41. Question: Can a seasonal employer that elects to use a 12-week period between May 1, 2019 and September 15, 2019 to calculate its maximum PPP loan amount under the interim final rule issued by Treasury on April 27, 2020, make all the required certifications on the Borrower Application Form?

¹⁵ Questions 38 – 39 published April 29, 2020.

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Answer: Yes. The Borrower Application Form requires applicants to certify that “The Applicant is eligible to receive a loan under the rules in effect at the time this application is submitted that have been issued by the Small Business Administration (SBA) implementing the Paycheck Protection Program.” On April 27, 2020, Treasury issued an interim final rule allowing seasonal borrowers to use an alternative base period for purposes of calculating the loan amount for which they are eligible under the PPP. An applicant that is otherwise in compliance with applicable SBA requirements, and that complies with Treasury’s interim final rule on seasonal workers, will be deemed eligible for a PPP loan under SBA rules. Instead of following the instructions on page 3 of the Borrower Application Form for the time period for calculating average monthly payroll for seasonal businesses, an applicant may elect to use the time period in Treasury’s interim final rule on seasonal workers.

42. **Question:** Do nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code qualify as “nonprofit organizations” under section 1102 of the CARES Act?

Answer: Section 1102 of the CARES Act defines the term “nonprofit organization” as “an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and that is exempt from taxation under section 501(a) of such Code.” The Administrator, in consultation with the Secretary of the Treasury, understands that nonprofit hospitals exempt from taxation under section 115 of the Internal Revenue Code are unique in that many such hospitals may meet the description set forth in section 501(c)(3) of the Internal Revenue Code to qualify for tax exemption under section 501(a), but have not sought to be recognized by the IRS as such because they are otherwise fully tax-exempt under a different provision of the Internal Revenue Code.

Accordingly, the Administrator will treat a nonprofit hospital exempt from taxation under section 115 of the Internal Revenue Code as meeting the definition of “nonprofit organization” under section 1102 of the CARES Act if the hospital reasonably determines, in a written record maintained by the hospital, that it is an organization described in section 501(c)(3) of the Internal Revenue Code and is therefore within a category of organization that is exempt from taxation under section 501(a).¹⁶ The hospital’s certification of eligibility on the Borrower Application Form cannot be made without this determination. This approach helps accomplish the statutory purpose of ensuring that a broad range of borrowers, including entities that are helping to lead the medical response to the ongoing pandemic, can benefit from the loans provided under the PPP.

¹⁶ This determination need not account for the ancillary conditions set forth in section 501(r) of the Internal Revenue Code and elsewhere associated with securing the tax exemption under that section. Section 501(r) states that a hospital organization shall not be treated as described in section 501(c)(3) unless it meets certain community health and other requirements. However, section 1102 of the CARES Act defines the term “nonprofit organization” solely by reference to section 501(c)(3), and section 501(r) does not amend section 501(c)(3). Therefore, for purposes of the PPP, the requirements of section 501(r) do not apply to the determination of whether an organization is “described in section 501(c)(3).”

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This guidance is solely for purposes of qualification as a “nonprofit organization” under section 1102 of the CARES Act and related purposes of the CARES Act, and does not have any consequences for federal tax law purposes. Nonprofit hospitals should also review all other applicable eligibility criteria, including the *Interim Final Rules on Promissory Notes, Authorizations, Affiliation, and Eligibility* (April 28, 2020) regarding an important limitation on ownership by state or local governments. 85 FR 23450, 23451.¹⁷

¹⁷ Questions 40 – 42 published May 3, 2020.