INSURANCE OFFICE OF AMERICA

COVID-19: Paycheck Protection Program FAQ

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WHAT IS THE PAYCHECK PROTECTION PROGRAM?

The Paycheck Protection Program is a government program set up under the U.S. Small Business Administration (SBA) to aid small businesses and their employees through the COVID-19 crisis. It provides provisions for loans that under certain criteria may be forgiven. This means that a portion or all of the loan will be converted to a grant if the criteria is met.

WHO CAN GET THESE LOANS?

Federally guaranteed SBA loans are available to businesses with 500 or fewer employees, including corporations, independent contractors, partnerships, sole proprietorships, tribal businesses, veterans' organizations, and certain nonprofit organizations. Restaurant and hotel entities are eligible to apply the 500 or fewer employee test on the basis of each physical location. Special rules apply to hotel and restaurant businesses operating as franchises, and certain generally applicable affiliation rules are waived for hotel and restaurant franchises. The size standards are tested on an affiliate basis—combined with all businesses under common control (50% ownership or contractual control)—counting on an aggregate basis toward the size test. The other requirement is to have been in business as of February 15, 2020.

DO I HAVE TO PROVE THAT I HAVE BEEN NEGATIVELY IMPACTED TO RECEIVE A LOAN?

There is no verification currently. However, eligible borrowers are required to make a good faith certification of three conditions: (1) the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; (2) the funds will be used to retain workers and maintain payroll, lease, and utility payments; and (3) the business is not receiving duplicative funds for the same uses from another SBA program.

This means that in good faith you must attest that your business has been negatively affected by COVID-19 or that you foresee a noticeable negative impact in the next few months.

WHAT ARE THE TERMS FOR THE LOAN?

- No personal or collateral guarantee is required.
- The eligible borrower does not have to certify that he or she is unable to obtain credit elsewhere.
- Eligible borrowers must make a good faith certification of three conditions: (1) the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; (2) the funds will be used to retain workers and maintain payroll, lease, and utility payments; and (3) the business is not receiving duplicative funds for the same uses from another SBA program.
- Maximum term of loan is 10 years.
- Interest rate cannot exceed 4%, but interest payments are completely deferred for 1 year.
- No prepayment penalty.
- Under the CARES Act, the loan period for this program begins on February 15, 2020, and ends on December 31, 2020, during which time applications must be submitted. The program covers businesses with fewer than 500 employees (unless the covered industry's SBA size standard allows more than 500 employees).

HOW DO I GET THE LOAN FORGIVEN?

Following a detailed application, the loan will be eligible for partial forgiveness in an amount (not to exceed the principal amount of the loan) equal to the sum of payroll costs; payroll support such as paid sick or medical leave, rent and utilities expenses; and interest payments on mortgages as long as any such lease, mortgage, or utility was in service prior to February 15, 2020 and, in each case, paid during the eight-week period commencing on the date of the loan.

Loans will be made by lenders that are participants in the SBA's Section 7(a) program, and those lenders also will decide whether to accept a borrower's application for forgiveness. Such a decision must be made within 60 days of receipt of the application for forgiveness. Not later than 90 days after the loan forgiveness amount has been agreed by the lender, the SBA is authorized to reimburse the lender directly for the principal amount of any forgiven debt plus interest accrued through the date of repayment.

The amount of any loan forgiveness will be reduced by any meaningful reductions in employee wages (in excess of 25% for any employee) or layoffs of employees during the covered period in accordance with the terms of the program.

Any loan amount not forgiven at the end of one year is carried forward as an ongoing loan with a maximum

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term of 10 years and a maximum interest rate of 4%. Detailed accounting and complete and accurate recordkeeping will be vital to taking advantage of these provisions.

WHAT EXPENSES WILL BE FORGIVEN?

The borrower shall be eligible for loan forgiveness equal to the amount spent by the borrower during an eight-week period after the origination date (the date on which the loan is funded) on payroll costs, interest payment on any mortgage incurred prior to February 15, 2020, payment of rent on any lease in force prior to February 15, 2020, and payment on any utility for which service began before February 15, 2020. Rental payment under a lease in effect as of January 1, 2020, would be eligible for forgiveness while rental payment under a lease effective as of March 15, 2020, would not. Eligible payroll costs do not include compensation above $100,000.

WHAT CAN I USE THESE LOANS FOR?

You should use the proceeds from these loans on your:

- Payroll costs, including benefits
- Interest on mortgage obligations, incurred before February 15, 2020
- Rent, under lease agreements in force before February 15, 2020
- Utilities, for which service began before February 15, 2020.

WHAT COUNTS AS PAYROLL COSTS?

Payroll costs include:

- Salary, wages, commissions, or tips (capped at $100,000 on an annualized basis for each employee)
- Employee benefits including costs for vacation, parental, family, medical, or sick leave allowance for separation or dismissal; payments required for the provisions of group health care benefits including insurance premiums; and payment of any retirement benefit
- State and local taxes assessed on compensation; and
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at $100,000 on an annualized basis for each employee.

WHAT IF I HAVE ALREADY LAID-OFF WORKERS OR CUT WAGES BEYOND 25%?

To encourage employers to rehire any employees who have already been laid off due to the COVID-19 crisis, borrowers who rehire workers previously laid off will not be penalized for having a reduced payroll at the beginning of the period. Employees terminated between February 15, 2020 and 30 days after passage of the CARES Act, but rehired by June 30, 2020, qualify as long as they're fully paid as if they were not terminated. Each employee with a wage cut more than 25% does not count as retained.

HOW DO I APPLY FOR A LOAN?

Once our partnered banks are capable of offering these loans, we will provide links to their pages along with instructions on how to apply.

- Cogent Bank
- Synovus Bank

WHAT DOCUMENTS SHOULD I HAVE READY?

- Payroll reports for 2019 and 2020 year to date showing the following by employee and/or officers:
    - Gross wages
    - Paid time off
    - Paid vacation
    - Pay for family medical leave
    - State and local taxes (form 940, 941, or 944)
    - 1099s for independent contractors (if applicable)
- Completed 2019 tax return OR 2019 profit and loss report and balance sheet
- Documentation Showing:
    - Funds received in the form of an economic injury loan since 1/31/20
    - Payments for group health care benefits, including premiums paid in 2019 and 2020 year to date
    - Payment of any retirement benefits paid in 2019 and 2020 year to date

Needed for verification of forgiveness amount:

- Quarterly IRS forms 940, 941, or 944 for the following dates:
    - March 31, 2019, and June 30, 2019
    - March 31, 2020, and June 30, 2020
- Documentation in the form of canceled checks, payment receipts, and bank statements showing payment of the following items from February 15, 2020, to June 30, 2020:;
    - Mortgage Interest
    - Rent payments
    - Utilities