



Benefits Association, Inc.

Small Business Administration Issues

New Loan Forgiveness Rules and Applications

June 19, 2020

The Small Business Administration (SBA) has issued an [updated final interim rule](#) on Paycheck Protection Program (PPP) loan forgiveness as well as an updated loan forgiveness application and a new "EZ" forgiveness application.

The updates from the SBA are a result of the Paycheck Protection Flexibility Act (PPFA) which became law on June 6, 2020. We wrote about the changes included in the act on [June 4th](#). The most notable aspects of the PPFA were the option to triple the covered period from 8 to 24 weeks and a change in the requirement to use 75% of funds for covered payroll costs to 60%. These changes should allow far more businesses to achieve full forgiveness under the program.

Although the covered period can now be expanded to 24 weeks, owner compensation is capped at the lesser of 2 ½ months of average 2019 monthly compensation or \$20,833. Although many owners would have preferred an expansion of covered owner compensation to the full 24 weeks (\$46,154), the new rule still represents an improvement, as the original rule only allowed for 8 weeks of owner compensation capped at \$15,385. This is a welcome development for independent contractors and freelancers who received loans based on their individual compensation and were flummoxed with how they might achieve maximum forgiveness of their loan when they lacked a qualifying use for the remaining funds (as much as \$5,448) such as mortgage interest or utilities.

Under the new rules, loans made after June 5th will automatically have a 5-year term vs the 2-year term originally offered. Existing loans can be extended to 5-years by mutual consent of the lender and borrower. The application deadline for new loans remains June 30th, although proposed legislation in Congress may further extend that time frame as well as create opportunities for borrowers who need additional funds to apply for a second loan. It's unclear when or if such a change may happen, but the entire program has evolved rapidly since the CARES Act was passed.

The applications and instructions are available from the SBA website:

- [Revised PPP Loan Forgiveness Application](#) and [instructions](#)
- [EZ PPP Loan Forgiveness Application](#) and [instructions](#)

Just as the name suggests, the revised application is similar to the previously issued application, but with changes that take into account the provisions of the PPFA.

- Borrowers with loans issued before June 5th can choose either the original 8-week covered period or a 24-week covered period.
- Safe harbors for wage and FTE reductions can be applied at the time the application is submitted rather than waiting until December 31st.

The new EZ application is streamlined but may only be used by:

- Self-employed individuals who did not include any employee wages in their borrower application.
- Borrowers who did not reduce wages by more than 25% or reduce employee count between January 1, 2020 and the end of the covered period.
- Borrowers who did not reduce wages by more than 25% during the covered period but experienced a reduction in employee count because they were unable to operate during the covered period at prior levels due to COVID-19.

Although the SBA has provided forgiveness applications, borrowers should contact their lender to determine if they will be using the SBA forms or some other process. Many lenders will likely create online forms to speed processing.

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