

PPP Second Draw Loans Guidance issued by SBA and the U.S. Treasury Department

The U.S. Small Business Administration (SBA) and Treasury issued guidance late Wednesday night for the reconstituted Paycheck Protection Program (PPP). The guidance came in the form of two interim final rules (IFRs). The last day to apply for and receive a PPP loan is March 31, 2021.

PPP2 overview

The PPP program provided \$525 billion in forgivable loans over five months before it stopped accepting applications in August. Congress revived the PPP as part of the \$900 billion COVID-19 relief bill. The Economic Aid Act rebooted PPP (or PPP2, as some call it) with many of the same parameters as the first program but also several important differences from the original PPP.

One major change is that Second Draw Loans are now available to businesses that previously received a PPP loan. Business are eligible for a second PPP loan of up to two million dollars, provided they have 300 or fewer employees, have used or will use the full amount of their first PPP loan for eligible expenses before the second draw is disbursed to the borrower, and if they can show a 25% gross revenue decline in any 2020 quarter compared with the same quarter in 2019.

Fresh PPP loans also are available to first-time borrowers from the following groups:

- Businesses with 500 or fewer employees that are eligible for other SBA 7(a) loans.
- Sole proprietors, independent contractors, and eligible self-employed individuals.
- Not-for-profits, including churches.
- Accommodation and food services operations (those with North American Industry Classification System (NAICS) codes starting with 72) with fewer than 300 employees per physical location.

The legislation also allows borrowers that returned all or part of a previous PPP loan to reapply for the maximum amount available to them.

PPP loan terms

As with PPP1, the costs eligible for loan forgiveness in PPP2 include payroll, rent, covered mortgage interest, and utilities. PPP2 also makes the following potentially forgivable:

- Covered worker protection and facility modification expenditures, including personal protective equipment, to comply with COVID-19 federal health and safety guidelines.
- Expenditures to suppliers that are essential at the time of purchase to the recipient's current operations.
- Covered operating costs such as software and cloud computing services and accounting needs.

To be eligible for full loan forgiveness, PPP borrowers are required to spend a minimum of 60% of the funds on payroll expenses over a covered period of either eight or 24 weeks. This is the same parameters as the original PPP loans.

PPP borrowers may receive a loan amount of up to 2.5 times their average monthly payroll costs in the year prior to the loan or the calendar year, the same as with PPP1, but the maximum loan amount has been to a maximum of two million dollars. PPP borrowers with NAICS codes starting with 72 (hotels and restaurants) can get up to 3.5 times their average monthly payroll costs, which is subject also to a two million dollar maximum.

Simplified application and other terms of note

The new COVID-19 relief bill also:

- Creates a simplified forgiveness application process for loans of \$150,000 or less.
Specifically, a borrower shall receive forgiveness if the borrower signs and submits to the lender a certification that is not more than one page in length, includes a description of the number of employees the borrower was able to retain because of the loan, the estimated total amount of the loan spent on payroll costs, and the total loan amount. The SBA must create the simplified application form within 24 days of the bill's enactment and may not require additional materials unless necessary to substantiate revenue loss requirements or satisfy relevant statutory or regulatory requirements. Borrowers are required to retain relevant records related to employment for four years and other records for three years, as the SBA may review and audit these loans to check for fraud.
- Repeals the requirement that PPP borrowers deduct the amount of any Economic Injury Disaster Loan advance from their PPP forgiveness amount.
- SBA will set aside available appropriations to fund Second Draw PPP Loans applied for by unresolved borrowers in the event they are approved.

For more information and full details on the PPP loans visit the U.S. Treasury website or speak with your accountant.

Helpful Links:

[SBA: PPP Second Draw Loans](#)

[US Treasury Business Loan Program Temporary Changes: Amended PPP Loans](#)

[U.S. Department of the Treasury](#)