

Paycheck Protection Program Loan Forgiveness Next Steps and Required Documentation

Congratulations on receiving your Paycheck Protection Program loan from Bank of Southern California. We are happy to be able to assist small businesses and self-employed individuals during this very challenging period. The notice is intended to help you understand the terms of your loan, how to satisfy the loan forgiveness conditions, and the procedures and documentation required to apply for loan forgiveness.

**All information contained in this Summary is pending further approval and is subject to SBA guidelines. We are continuing to monitor updates as they become available.*

What are the terms of my loan?

All loan terms under the PPP will be the same for everyone. The loan will have a fixed interest rate equal to 1.00% and a 2-year loan term. No payments will be due under the loan for 6 months. For any portion of the loan that is not forgiven, monthly payments of principal and interest are payable for months 7 through 24 of the loan term. There is no prepayment for repaying the loan prior to maturity. You will not need to personally guaranty the loan or post collateral to secure the loan.

What can I use the loan proceeds for? And how much of the loan will be forgiven?

Generally, the loan will be forgiven in its entirety if the loan proceeds are spent within the 8-week period following the funding of the loan on allowable expenditures and if certain reductions in workforce and wages do not occur during this 8-week period.

Allowable expenditures during the 8-week period include:

- For a business borrower, payroll costs, which is defined to include gross wages, commissions, and similar compensation, but only up to \$15,385 per individual; plus employer paid health care expenses; plus employer paid retirement benefits; plus employer paid separation or dismissal pay; plus employer paid medical, health, family and sick leave; plus and employer paid State and local taxes, including unemployment insurance premiums;
- For a self-employed/independent contractor borrower, owner compensation replacement not to exceed eight weeks' worth (8/52) of 2019 net profit (Form 1040 – Schedule C – line 31), subject to a maximum of \$15,385 per borrower;
- Interest (but not principal) on mortgage debt (a loan secured by real or personal property) incurred prior to February 15, 2020,
- Rent for lease arrangements in place prior to February 15, 2020, and
- Utilities, provided they were placed in service prior to February 15, 2020.

The SBA has indicated that no more than 25% of the forgiveness amount may be for interest on mortgage debt, rent and utilities. In other words, if the loan amount is \$10,000 and the applicant seeks 100% loan forgiveness, no more than \$2,500 of the loan proceeds may be used for interest on mortgage debt, rent and utilities.

The loan forgiveness amount will be reduced based on the average number of full time employees (FTEs) per month during the 8-week period compared to the average number of FTEs per month during either (i) the period between February 15, 2019 and June 30, 2019, or (ii) the period between January 1, 2020 and February 29, 2020. For this purpose, average number of FTEs will be determined by calculating the average number of FTEs for each pay period falling within a month. For example, if you had two pay periods in a particular month, and 5 FTEs for one pay period and 7 FTEs for the second pay period, your average number of FTEs for the month would be 6. While we don't have

express guidance on this point, we believe the definition of FTE is any employee regularly working more than 30 hours per week.

The loan forgiveness amount also will be reduced by the amount of any reduction in the wages of an employee in excess of 25% of the total wages of such employee during the most recent full quarter prior to the loan origination. A reduction in wages of any employee who is making more than \$100,000 annually will not impact the loan forgiveness amount.

Reductions in FTEs or wages that occur between February 15, 2020 and April 26, 2020 will not impact the loan forgiveness amount if such reductions are eliminated (i.e., FTEs are rehired and wage reductions in excess of 25% are restored) by June 30, 2020.

For seasonal businesses or business not in operation during the entirety of 2019, special rules may apply.

[How can I request loan forgiveness?](#)

After the end of the 8-week period following loan origination, you can apply to the lender for loan forgiveness. We are requesting that borrowers submit this application no later than 30 days after the end of the 8-week period so that we can make a prompt determination on loan forgiveness. You will need to submit documents that verify the number of FTEs and pay rates during the 8-week period, as well as the payments on allowable expenditures. See the following question for more detail. You must certify that the documents are true and that you used the forgiveness amount for allowable expenditures. The lender will make a decision on the forgiveness application within 60 days.

If any amount is not forgivable, as determined by lender, then the lender will calculate the monthly payment that you will make during the last 18 months of the loan term to repay the remaining loan amount along with accrued interest at 1%.

[What documents do I need to submit to the lender to apply for loan forgiveness?](#)

You will need to submit the following to the lender with respect to each category of allowable expenses. If you have questions, please consult your Accountant or CPA or visit the SBA FAQs at www.sba.gov.

Payroll Costs

- Copies of payroll reports for each pay period during the 8-week period, reflecting gross wages and all forms of paid leave, and evidencing the number of full-time employees paid for the pay period. For any employees with wages in excess of \$15,385 for the 8-week period, please provide each pay stub for the employee during the 8-week period.
- For self-employed individuals or independent contractors, your 2019 Schedule C. You need to submit your projected 2019 Schedule C even if you have not filed your 2019 tax return.
- Copies of payroll reports evidencing the number of full-time employees during the period between January 1, 2020-February 29, 2020 and between February 15, 2019-June 30, 2019.
- Documentation evidencing whether and to what extent during the 8-week period the company cut the pay of any employee making less than \$100,000 on an annualized basis by more than 25% based on the total wages of such employee during the most recent full quarter prior to the 8-week period.
- Documentation reflecting group health care insurance premiums paid by the company under a group health plan during the 8-week period. Copies of the monthly invoices and cleared checks/bank statements should suffice.
- Documentation reflecting all retirement plan funding by the company for the 8-week period. Copies of the monthly payments to plan administrators should suffice.

- Documentation reflecting all company paid State and local employment taxes and unemployment insurance premiums during the 8-week period.

Rent

- Proof of payment (such as a cleared check) of rent obligations paid during the 8-week period, including copies of the associated lease agreement. The rent must be associated with a lease in effect before February 15, 2020.

Interest on Mortgage Debt

- Statements of interest paid on mortgage debt incurred prior to February 15, 2020, indicating interest paid and proof of payment (such as a cleared check).

Utilities

- Copies of cancelled checks, statements, invoices and other evidence of utilities paid during the 8-week period. The statute does not define “utilities” but we would recommend being conservative/traditional in the characterization of utilities (i.e., electric, gas, heat, water, trash removal, cable connection). The utility must be in service before February 15, 2020 to qualify.