

THE POWER OF BEING UNDERSTOOD

PPP FORGIVENESS AND MAIN STREET LOANS

Managing Liquidity Considerations



April 29, 2020

PPP Forgiveness – What Can be Included?

- PAYROLL, which includes:
 - Salary, wages commissions (up to \$15,384 per employee over 8 week period);
 - Cash tips / equivalent;
 - Payment for vacation, parental, family, medical or sick leave (excluding wages for which credit is allowed under FFCRA);
 - Allowance for separation / dismissal;
 - Payment for provision of employee benefits (group health coverage, including insurance premiums and retirement); and
 - State and local taxes assessed on employee compensation (i.e. unemployment insurance premiums).
- Mortgage interest on any business mortgage (real or personal)
- Business rent payments
- Utility payments

PPP Forgiveness – Reductions

- Discrepancy between borrowing amount (average monthly payroll x 2.5) vs. 8 weeks of the covered period.
- Amount of qualified non-payroll costs (maximum 25% of loan forgiveness amount).
- Full time equivalent employee reductions.
- Salary and wage reductions for those earning under \$100,000 per year on an annualized basis.

PPP Forgiveness – Case Study (Assumptions)

Max's Bicycle Company employed 30 people in 2019 as follows:

- 10 people each earn \$50,000 per year
- 10 people each earn \$100,000 per year
- 10 people each earn \$150,000 per year

Max's Bicycle Company qualifies for a PPP loan of \$520,833.

Max's goal is to maximize forgiveness while doing his best to retain his employees.

PPP Forgiveness – Case Study (No Change)

Max is able to maintain the existing 30 employees during the 8 week covered period.

Max also has rent obligations of \$20,000 during the 8 week covered period and \$5,000 in utility obligations during the 8 week covered period.

Total payroll over the 8 week period equals \$384,885.

Max's maximum forgiveness amount is \$409,885.

Max's remaining loan balance is \$110,948.

Current as of 4/28/20

PPP Forgiveness – Case Study (Reduction in Employees)

Max makes the hard decision to lay off 5 people the day before he receives his PPP loan. He does not plan on hiring them back by June 30th, 2020. All of the employees who are laid off were making \$50,000 per year.

Max also has rent obligations of \$20,000 during the 8 week covered period and \$5,000 in utility obligations during the 8 week covered period. These have not changed.

Total payroll over the 8 week period equals \$346,154.

Max's maximum forgiveness amount is \$309,295.

Max's remaining loan balance is \$211,538.

PPP Forgiveness – Case Study (Reduction in Wages)

Rather than laying anyone off, Max reduces wages for 5 of his employees who had been earning \$50,000 per year. In the previous full quarter, they each had earned \$12,500. In the 8 week covered period, they each had earned \$5,000. Max does not plan to increase their wages by June 30th, 2020.

Max also has rent obligations of \$20,000 during the 8 week covered period and \$5,000 in utility obligations during the 8 week covered period. These have not changed.

Total payroll over the 8 week period equals \$361,154.

Max's maximum forgiveness amount is \$364,279.

Max's remaining loan balance is \$156,554.

PPP Forgiveness – Case Study (Reduction in Wages II)

Rather than laying anyone off, Max reduces wages for 10 of his employees who had been earning \$50,000 per year. In the previous full quarter, they each had earned \$12,500. In the 8 week covered period, they each had earned \$5,000. Max does not plan to increase their wages by June 30th, 2020.

Max also has rent obligations of \$20,000 during the 8 week covered period and \$5,000 in utility obligations during the 8 week covered period. These have not changed.

Total payroll over the 8 week period equals \$357,692.

Max's maximum forgiveness amount is \$338,942.

Max's remaining loan balance is \$181,891.

PPP Forgiveness – Case Study (Summary)

Scenario	Payroll Costs over 8 week period	Loan Forgiveness (including payroll and other eligible uses)	Remaining Loan Balance Post-Forgiveness
No Change	\$384,885	\$409,885	\$110,948
5 employees laid off	\$346,154	\$309,295	\$211,538
Wage reductions for 5 employees	\$361,154	\$364,279	\$156,554
Wage reduction for 10 employees	\$357,692	\$338,942	\$181,891

Main Street Loan Program

- Section 4003 of CARES Act
- Minimum loans of \$1M in 2 tranches:
 - New Lending Facility (Lesser of \$25M or when added to other debt, does not exceed 4x 2019 EBITDA)
 - Expanded Loan Facility (Lesser of \$150M or 30% of existing debt or when added to other debt, does not exceed 6x 2019 EBITDA)
- 4 year term with interest rates equal to SOFR + 250-400 BP
- Restrictions on use, executive compensation, distributions
- Borrowers can participate in the Main Street program and the PPP
- **NO LOAN FORGIVENESS**

Waiting for more...

Debbie Singer

RSM US LLP

One South Wacker Drive

Chicago IL 60606

+1 800 274 3978

rsmus.com

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