Guide to Paycheck Protection Program
Loan Forgiveness Application
Small Businesses COVID-19 Relief

Updated as of July 15, 2020
Start Small Think Big: An Introduction
Overview

Who We Are

• Start Small Think Big believes that access to high-quality legal, financial management, and marketing services is an essential part of starting or growing a successful small business
• A nonprofit organization that focuses on pairing entrepreneurs positioned to grow their businesses with top pro bono attorneys and financial and marketing experts

Who We Serve

• We work with underserved small business owners.
What We Do

**Legal Assistance**
- Provide clients access to legal assistance by referring our clients to firms for pro bono counsel
- Volunteer attorneys address various issues including forming an appropriate legal structure for the business, contract review and drafting, and commercial lease review

**Financial Assistance**
- Provide access to in-house staff as well as pro bono financial advisors through a referral program to assist with small business financial management

**Marketing Assistance**
- Provide access to pro bono marketing advisors through a referral program and hands-on workshops
- Connect clients to vending opportunities such as tastings, Pop Up shops, street markets/fairs, and business-to-business sales
What are we doing about COVID19 and Recovery?
1. Understanding Grants and Loans Available
   • Our financial program is running a series of **office hours** to help understand the funding options available. SSTB entrepreneurs can also receive 1-1 assistance **costs of pivoting to a new channel/product**, **general cash flow planning**.

2. Addressing Legal Concerns
   • Our legal program is offering **webinars** to help with risks and mitigation. These include labor and employment, **contract reviewing**, doing business online, and debt management.

3. Planning for New Marketing and Sales Channels
   • **Weekly sessions** on messaging and marketing. Eligible entrepreneurs can receive **assistance 1-1** exploring new sales channels and products and marketing their existing services.

http://www.startsmallthinkbig.org/
Assistance during COVID19

4. Ongoing Resources
   • Our website has live update on resources available throughout the small business sector.
   • Please apply to be a client at: https://www.startsmallthinkbig.org/apply-now
   • For anyone, including non-clients, seeking walk-in style COVID-19 support please visit: https://covid19.startsmallthinkbig.org/request/

5. Public Facing Events
   • We have many ongoing and new virtual events held that are publically available. https://www.startsmallthinkbig.org/workshops-classes

6. Promoting Small Businesses
   • Featuring business on our Shop Our Clients page and sharing it to all of our partners to promote sales. https://www.startsmallthinkbig.org/shopourclients

http://www.startsmallthinkbig.org/
Assistance during COVID19

Request Free Rapid Response Services Here

- COVID-19 Legal Assistance
- Loans/Grants Application, Compliance, Forgiveness Help
- Financial Guidance and Cash Flow Analysis

https://covid19.startsmallthinkbig.org/request
A Guide to Paycheck Protection Program
Loan Forgiveness
Important Information About This Presentation

Please note that the information contained in the presentation will continue to evolve in real time as legislative and administrative responses to the crisis develop.

Applicants should be prepared for some amount of delay and uncertainty, and should be sure they have reviewed the latest legislative and administrative updates when submitting an application.

This information is current as of July 15, 2020, and should not be considered comprehensive. This is not a substitute for, and should not be relied upon as, legal or professional advice; we recommend that you consult professional advisors for guidance on your individual circumstances. Nothing contained herein creates an attorney-client relationship with Cleary Gottlieb. This information should not be construed as an endorsement of any specific financial program.
Background and Overview

On May 15, 2020, the U.S. Small Business Administration ("SBA") released the initial loan forgiveness application for Paycheck Protection Program ("PPP") loans. Additional guidance on the application followed on May 22.

On June 5, the PPP Flexibility Act was enacted, which provides borrowers with additional time and flexibility to use loans and obtain forgiveness. Further guidance and updated applications for loan forgiveness followed on June 16.

- **PPP Loans**: The PPP is a program under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to provide federal loans to small businesses to help cover payroll and certain other expenses during a “Covered Period.” The Covered Period generally ends on the earlier of 24 weeks after loan origination or December 31, 2020 (an increase under the PPP Flexibility Act from the initial 8-week period). Eligible small businesses may apply for and receive a PPP loan from a participating lending institution through August 8. As of July 10, 2020, the SBA reports that funding is still available for PPP loans.

- **PPP Loan Forgiveness**: A borrower may be eligible for forgiveness of a PPP loan if a number of conditions are met. This presentation highlights some key aspects of the requirements for PPP loan forgiveness as of July 15 and walks through hypothetical scenarios.

**Borrowers who received a PPP loan before the enactment of the PPP Flexibility Act on June 5 should contact their lenders to determine any applicable modification to loan terms in light of the new legislation.**
# Presentation Outline

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I. PPP Loan Forgiveness: Application Materials and Key Terms
To apply for forgiveness of a PPP loan, a borrower will need to complete a PPP Loan Forgiveness Application and submit it to the lender that extended the loan.

**When to apply:** Application form for loan forgiveness (with attachments, as applicable) may be submitted at any time (including before the end of the “Covered Period”, as defined below) and must be submitted within ten months after the end of the borrower’s forgiveness period.

**Forgiveness period:** The period from loan origination through the earlier of 24 weeks after origination or December 31, 2020 (“Covered Period”). Note that borrowers who received a loan before the enactment of the PPP Flexibility Act (June 5) can elect to continue using the previously applicable 8-week period following the loan origination date as their Covered Period.

In either case, borrowers with a biweekly (or more frequent) payroll schedule may choose to calculate payroll costs eligible for forgiveness using the 24 or (for loans received before June 5) 8-week period that begins on the first day of their first pay period following the PPP loan disbursement date (“Alternative Payroll Covered Period”).

**Forgiveness decision and appeal:** Lender will have 60 days from submission of the application of forgiveness to submit a decision to the SBA, which then has 90 days to review. Lender loan forgiveness decision may be (i) approval (in whole or in part), (ii) denial or (iii) denial without prejudice (at SBA direction, pending SBA review of the loan). Borrower may request SBA review within 30 days of receiving a denial notice from a lender. Borrower may appeal an SBA determination (guidance on appeal process forthcoming as of date of this presentation).

**Repayment:** If all or a portion of a loan is not forgiven, borrower must repay that portion with interest (at an interest rate of 1%), but payments of principal and interest on any unforgiven loan amounts are deferred until the date on which the amount of forgiveness is determined. If a borrower does not apply for forgiveness within 10 months after the end of the Covered Period, the deferral would end on the date that is 10 months after the end of the Covered Period.
PPP Loan Forgiveness – Eligibility for Forgiveness

To be eligible for complete forgiveness:

- **At least 60% of loan proceeds must be spent on eligible payroll costs**
  - Payroll costs paid and incurred during the Covered Period or the Alternative Payroll Covered Period
    - Include salary, wages, bonuses, hazard pay, commissions to furloughed employees (not exceeding prorated $100,000/year)
    - Eligible if incurred during Covered Period or the Alternative Payroll Covered Period and paid on or before next regular payroll date (even if not paid during applicable forgiveness period)
    - Considered paid on day paycheck distributed or borrower originates ACH credit transaction
    - Considered incurred on day employee’s pay is earned
    - Capped at the 2.5 month equivalent of 2019 compensation for owner-employees and self-employed individuals (or 8/52 of 2019 compensation if using 8-week covered period) in total across all businesses
  - Prorated for applicable forgiveness period, based on annual salary of up to $100,000 for each employee

- **No more than 40% of loan proceeds may be spent on eligible nonpayroll costs**
  - Eligible nonpayroll costs paid during Covered Period, or incurred then and paid on or before next regular billing date (even if after that period)
    - *Mortgage interest payment*: on business mortgage on real or personal property; incurred before February 15, 2020; cannot include any advance payment of interest or payment of principal
    - *Rent or lease payment*: under rent or lease agreement for real or personal property in force before February 15, 2020
    - *Utility payments*: electricity, gas, water, transportation, telephone, internet access for which service began before February 15, 2020
# Potential Reduction in Forgiveness for FTE: General Rule

<table>
<thead>
<tr>
<th>General rule: Reduction in full-time equivalency (&quot;FTE&quot;) (i.e., headcount)</th>
<th>Subject to certain exceptions (as described further herein), a borrower’s forgiveness amount will be reduced if the borrower’s average FTE during its Covered Period or the Alternative Payroll Covered Period (as applicable) is less than its average FTE during the borrower’s chosen reference period, <em>unless</em> either of the two “FTE Reduction Safe Harbors” apply (as described below).</th>
</tr>
</thead>
</table>

## How should borrowers calculate the FTE of their employees?

There are two approaches to calculating FTE.

- **Option A**: For each employee, enter the number of hours paid per week, divide by 40, and round the total to the nearest tenth. (Note: the maximum for each employee is capped at 1.0, even if the employee works more than 40 hours per week).

- **Option B**: Enter 1.0 for each employee who works 40 hours or more per week and 0.5 for each employee who works less than 40 hours per week.

*Consider calculating FTE under both tests if you have a large number of part-time employees, as using a different calculation approach may result in more of your PPP loan being forgivable.*

## What is the borrower’s “reference period” for calculating FTE?

A borrower can elect to use either the period from February 15, 2019 to June 30, 2019 or the period from January 1, 2020 to February 29, 2020 as the “reference period.”

- A “seasonal employer” (within the SBA’s definition) may also elect to use any consecutive twelve-week period between May 1, 2019 and September 15, 2019.

*Consider calculating the total FTE for each potential period and selecting the period which results in the lowest number* (as this is the figure against which the borrower’s total FTE during the Covered Period will be compared when determining how much forgiveness is reduced).
Potential Reduction in Forgiveness for FTE: Safe Harbors and Exceptions

Two Safe Harbors for FTE Reduction

A borrower’s forgiveness will not be reduced due to a reduction in FTE if one of the following applies:

— **FTE Reduction Safe Harbor 1: Inability to operate at same level of business**
  
  • Borrowers are exempt from the reduction in loan forgiveness if they can document in good faith that they were unable to operate between February 15, 2020 and the end of the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1 and December 31, 2020, by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration, related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.

— **FTE Reduction Safe Harbor 2: Restoration of headcount by December 31, 2020**
  
  • Borrowers are also exempt from the reduction in loan forgiveness if they (i) reduce their FTE employee levels in the period beginning February 15, 2020 and ending April 26, 2020; and then (ii) restore their FTE employee levels by not later than December 31, 2020 to their FTE employee levels in the pay period that included February 15, 2020.

Exceptions to FTE Reduction

Any FTE reductions due to the following will not reduce the borrower’s loan forgiveness:

— Any positions for which the borrower made a good-faith, written offer to rehire an employee during the relevant period (for the same salary/wages and number of hours), the offer was rejected by the employee, the borrower maintained records of the offer and rejection, the borrower informed the state unemployment insurance office of such employee’s rejected offer of employment within 30 days of the rejection, and the borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020,

— Any positions for which the borrower made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the forgiveness period and the employee rejected the offer, and

— Any employees who during the forgiveness period (a) were fired for cause, (b) voluntarily resigned, or (c) voluntarily requested and received a reduction of hours.
Potential Reduction in Forgiveness for Wages or EIDL Advances

A borrower’s loan forgiveness may also be reduced under the following circumstances:

• **Reduction in wages**: A borrower’s loan forgiveness amount will be reduced for each employee whose average pay during the Covered Period or the Alternative Payroll Covered Period (as applicable) is less than 75% of their average pay during the period from January 1, 2020 to March 31, 2020, *unless* wages are restored to February 15, 2020 levels by December 31, 2020.

• **Prior receipt of an EIDL advance**: If borrower applied for and received an Economic Injury Disaster Loan advance (a grant), SBA will deduct the EIDL advance from the forgiveness amount.
PPP Loan Forgiveness – How to Apply

How to apply:

• Submit a loan forgiveness application to your lender (or the lender servicing your loan).
• Borrowers can apply using the PPP Loan Forgiveness Application unless the borrower is eligible to apply for forgiveness using the PPP Loan Forgiveness Application Form 3508EZ.
• Borrowers may also apply using equivalent application forms from their lenders.

Links to Application Forms:

• PPP Forgiveness Application Form 3508EZ: https://home.treasury.gov/system/files/136/PPP-Forgiveness-Application-3508EZ.pdf

Links to Application Instructions:

• Instructions for the standard PPP Forgiveness Application: https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Instructions_1_0.pdf
• Instructions for PPP Forgiveness Application Form 3508EZ: https://home.treasury.gov/system/files/136/PPP-Loan-Forgiveness-Application-Form-EZ-Instructions.pdf
PPP Loan Forgiveness – When Can Borrowers Use the EZ Form?

Borrowers may apply for PPP forgiveness using the Form 3508EZ if the borrower satisfies any **one of the following three criteria:**

1. The borrower is a self-employed individual, independent contractor, or sole proprietor who had no employees at the time of the PPP loan application and did not include any employee salaries in the computation of its PPP loan amount; **or**

2. The borrower:
   i. did not reduce annual salary or hourly wages of any employee (who made less than $100k/year) by more than 25% during its forgiveness period compared to the period between January 1 and March 31, 2020, **and**
   ii. did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (ignoring (a) reductions that arose from an inability to rehire individuals who were employees on February 15, 2020 if the borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020 and (b) reductions in an employee’s hours that the borrower offered to restore and the employee refused); **or**

3. The borrower:
   i. did not reduce annual salary or hourly wages of any employee (who made less than $100k/year) by more than 25% during its forgiveness period compared to the period between January 1 and March 31, **and**
   ii. was unable to operate during the Covered Period at the same level of business activity as before February 15, 2020, due to compliance with COVID-19-related requirements/guidance issued between March 1 and December 31, 2020 by the federal government.
PPP Loan Forgiveness – Application Materials and Key Terms

**Documents to submit with application:** The required submissions are similar across the two application forms.

For PPP Loan Forgiveness Application Form 3508EZ, the documents to submit include:

- PPP Loan Forgiveness Application Form 3508EZ (with signed certification).
- Payroll documents and non-cash benefit supporting documents (e.g. bank account statements or third-party payroll service provider reports).
- Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
  - Payroll tax filings reported (or that will be reported) to the IRS (typically, Form 941); and
  - State quarterly business and individual employee wage reporting and unemployment tax filings reported (or that will be reported) to the relevant state.
- Payment receipts, cancelled checks or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans included in the forgiveness amount.
- Documents showing the borrower’s FTE on January 1, 2020 and at the end of the borrower’s forgiveness period (if the borrower has employees).
- Other applicable nonpayroll documents (e.g. mortgage interest, rent, lease or utilities), such as:
  - Copies of lender amortization schedule, invoices, and/or lease agreement.
  - Receipts, cancelled checks and/or account statements verifying eligible payments.
Records to maintain even if not submitted: The applications also require that *everything* related to the loan and loan forgiveness application, be maintained *for 6 years* after loan is forgiven or repaid in full.

Specifically, the PPP Loan Forgiveness Application Form 3508EZ requires borrowers to maintain:

- Documentation supporting certification that annual salaries/wages were not reduced by more than 25% during forgiveness period relative to January 1 through March 31, 2020 (for each employee);

- Documents re. certain employee circumstances (e.g., job offers and refusals, firings for cause, voluntary resignations, employee requests for reduced schedule, inability to rehire); and

- Documents supporting the certification (if applicable) that the borrower was unable to operate between February 15, 2020 and the end of the covered period at the same level of business activity pre-February 15 due to compliance with COVID-19-related requirements established by the federal government between March 1 and December 31, 2020.
PPP Loan Forgiveness Application Form 3508EZ

Page 1: PPP Loan Forgiveness Application Form 3508EZ: Borrower fills out this form using information about the business and the PPP loan.

- **EIDL advance**: If borrower applied for and received an Economic Injury Disaster Loan advance (a grant), SBA will deduct the EIDL advance from the forgiveness amount.

- **Nonpayroll costs**: Borrower need not include nonpayroll costs amounts (lines 2-4) if not seeking to have these costs forgiven; sole proprietors and LLC owners seeking loan forgiveness for these costs must have claimed or be entitled to claim a deduction for these expenses on their 2019 Form 1040 Schedule C.

- **Regulations and guidance**: Loan forgiveness application is to be evaluated in accordance with PPP regulations and guidance issued by SBA through date of the application — a loan forgiveness applicant must therefore carefully monitor for new regulations and guidance and ensure they refer to the latest information.

Page 2: Certifications and representations of the borrower.

Page 3: Optional demographic information form.
Start with the PPP Schedule A Worksheet: PPP loan forgiveness applies a specific formula for calculation of amounts eligible for forgiveness. A starting point for gathering required information is the PPP Schedule A Worksheet in the application.

- **Reduction to forgiveness amount:** Certain reductions in loan forgiveness amount may be required based on reduction in FTE or in salary and wages, unless certain safe harbors and exceptions apply (as discussed on slide 17). The borrower will determine its eligibility for these safe harbors and exception using the Schedule A worksheet.

- **Worksheet record keeping:** Borrower not required to submit this PPP Schedule A Worksheet with application, but must retain as record for 6 years this or an equivalent worksheet used to calculate these amounts.
Then complete PPP Schedule A: Using amounts from the PPP Schedule A Worksheet and additional information about the business, a borrower can then fill out the information requested in the PPP Schedule A (including any applicable reduction in forgiveness for a reduction in FTE), which must be submitted with the application for PPP loan forgiveness.
Finally, complete the PPP Loan Forgiveness Calculation Form: Using amounts from the PPP Schedule A and additional information about the business and the PPP loan, a borrower can then fill out the PPP Loan Forgiveness Calculation Form.

- **EIDL advance**: If borrower applied for and received an Economic Injury Disaster Loan advance (a grant), SBA will deduct the EIDL advance from the forgiveness amount.

- **Nonpayroll costs**: Borrower need not include nonpayroll costs amounts (lines 2-4) if not seeking to have these costs forgiven; sole proprietors and LLC owners seeking loan forgiveness for these costs must have claimed or be entitled to claim a deduction for these expenses on their 2019 Form 1040 Schedule C.

- **Regulations and guidance**: Loan forgiveness application is to be evaluated in accordance with PPP regulations and guidance issued by SBA through date of the application – a loan forgiveness applicant must therefore carefully monitor for new regulations and guidance and ensure they refer to the latest information.
II. Calculating Forgiveness: Sample Scenarios
Every business will have specific facts and circumstances that apply to its application for PPP loan forgiveness. In the following slides, we attempt to cover basic scenarios that address the impact on loan forgiveness of:

- **No layoffs or reductions in headcount or wages** (Example 1)
- **Laying off employees** (Example 2)
- **Laying off and then rehiring employees** (Example 3)
- **Reducing employee hours or wages** (Examples 4 and 5)
Facts & Assumptions for Examples

Assume the following facts for each of the following five examples:

<table>
<thead>
<tr>
<th>Covered Period</th>
<th>April 26 to October 11 (24 weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Headcount</td>
<td>Eight FT employees working at least 40 hours each week at $20/hour</td>
</tr>
<tr>
<td>Monthly average payroll</td>
<td>$25,600 (i.e., 40 hours × $20/hour × 8 employees × 4 weeks)</td>
</tr>
<tr>
<td>Loan amount (2.5 x monthly average payroll)</td>
<td>$64,000</td>
</tr>
</tbody>
</table>

The examples assume that none of the following occurred during the Covered Period:

(i) employer contributions to employee retirement plans,
(ii) employer contributions to employee health insurance,
(iii) employer state and local taxes assessed on compensation, or
(iv) compensation to business owners (i.e., owner-employees, self-employed individuals and general partners).

As discussed above, a borrower that makes these types of payments during its Covered Period can include them in its total payroll costs for purposes of calculating its forgiveness amount.
Example 1: No Wage or Headcount Reduction

**During Covered Period:**
- Borrower elects to use 8-week period applicable prior to enactment of Paycheck Protection Program Flexibility Act as Covered Period.
- No reduction in headcount or wages, so borrower uses the PPP Loan Forgiveness Application Form 3508EZ.
- Borrower spends $12,800 on mortgage interest, rent, utilities during Covered Period.
- Total cash compensation during Covered Period: $51,200 (i.e., 40 hours × $20/hour × 8 employees × 8 weeks)
- Total average FTE: 8 (average FTE for each full-time employee is 1)

<table>
<thead>
<tr>
<th>Payroll and Nonpayroll Costs</th>
<th>Line 1. Payroll Costs: $51,200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line 2. Business Mortgage Interest Payments:</td>
<td></td>
</tr>
<tr>
<td>Line 3. Business Rent or Lease Payments:</td>
<td></td>
</tr>
<tr>
<td>Line 4. Business Utility Payments:</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential Forgiveness Amounts</th>
<th>Line 5. Add the amounts on lines 1, 2, 3, and 4: $64,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line 6. PPP Loan Amount:</td>
<td>$64,000</td>
</tr>
<tr>
<td>Line 7. Payroll Cost 60% Requirement (divide Line 1 by 0.60):</td>
<td>$85,333.33</td>
</tr>
</tbody>
</table>

| Forgiveness Amount | Line 8. Forgiveness Amount (enter the smallest of Lines 5, 6, and 7): $64,000 |

100% forgiveness
Example 2: Employee Layoffs

**During Covered Period**: Borrower does not elect to use 8-week period following origination as Covered Period.

- **Layoffs**: Six of the employees are laid off on April 11, and borrower cannot qualify for FTE Reduction Safe Harbor 1.
- Total cash compensation during Covered Period: $38,400 = (40 hours × $20/hour × 2 employees × 24 weeks)
- Total average full-time equivalency (FTE): 2 (avg. FTE for each retained employee is 1; avg. FTE for each terminated employee is 0)

1. **Is FTE Reduction Safe Harbor 2 satisfied?**

   **Step 1** - Borrower’s total average FTE between February 15, 2020 and April 26, 2020:
   - Average FTE for each of the two retained employees: 1
   - Average FTE for each of the six laid-off employees:
     - 10 week period; layoffs are 8 weeks in
     - Avg. FTE: 0.8 = ([8 weeks × 40 hours] + [2 weeks × 0 hours]) ÷ 10 weeks ÷ 40
   - Total Average FTE: 6.8 = (1 × 2 employees) + (0.8 × 6 employees)

   **Step 2** - Total FTE in pay period including February 15, 2020: 8
   - **Step 3** - Entry for step 2 is greater than step 1; therefore proceed to step 4

   **Step 4** - Total FTE as of December 31, 2020: 2
   - **Step 5** – Safe Harbor is NOT SATISIFIED

2. **FTE Reduction Calculation on PPP Schedule A**:

   - Line 11. Average FTE during chosen reference period: 8
   - Line 12. Total Average FTE during Covered Period: 2
   - Line 13: FTE Reduction Quotient (Line 12 ÷ Line 11): \( \frac{2}{8} = 0.25 \)

   - **Payroll and Nonpayroll Costs**
     - Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):
     - Total: $38,400
     - **Line 2. Business Mortgage Interest Payments**:
     - **Line 3. Business Rent or Lease Payments**:
     - **Line 4. Business Utility Payments**:
     - **Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions**
     - Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):
     - Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:
     - Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):
     - **Potential Forgiveness Amount**
     - Line 8. Modified Total (multiply line 6 by line 7):
     - Line 9. PPP Loan Amount:
     - **Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60)**:
     - **Forgiveness Amount**
     - Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

   - **Total: $12,800**
   - **20% forgiveness**
   - **$12,800**
Example 3: Rehiring Laid-off Employees

During the Covered Period: Borrower does not elect to use 8-week period following origination as Covered Period.

- **Layoff & Rehire:** Six of eight employees are laid off on April 11; two are rehired on September 13 (20 weeks into the Covered Period, at the same wage); and other four are rehired on December 1 (same wage). Borrower cannot qualify for FTE Reduction Safe Harbor 1.
- Total cash compensation: $44,800 = (40 hours × $20/hour × 24 weeks × 2 employees) + (40 hours × $20/hour × 4 weeks × 2 employees)
- Total average full-time equivalency (FTE): 2.33 (avg. FTE for each retained employee = 1, and for each employee rehired during Covered Period = 0.167 (i.e. (((20 weeks × 0 hours) + (4 weeks × 40 hours)) ÷ 24 weeks) ÷ 40 )

1. Is FTE Reduction Safe Harbor 2 satisfied?

   **Step 1** - Borrower’s total average FTE between February 15, 2020 and April 26, 2020:
   - Average FTE for each of the two retained employees: 1
   - Average FTE for each of the six laid-off employees:
     - 10 week period; layoffs are 8 weeks in
     - Avg. FTE: 0.8 = (((8 weeks × 40 hours) + (2 weeks × 0 hours)) ÷ 10 weeks) ÷ 40
   - Total Average FTE: 6.8 = (1 × 2 employees) + (0.8 × 6 employees)

   **Step 2** - Total FTE in pay period including February 15, 2020: 8
   - **Step 3** - Entry for step 2 is greater than step 1; therefore proceed to step 4

   **Step 4** - Total FTE as of December 31, 2020: 8

   **Step 5** - Safe Harbor is SATISIFIED
Example 4: Reducing Employees to Part-time

During Covered Period: Borrower does not elect to use 8-week period following origination as Covered Period.
- Reduced to part-time: All eight employees are reduced to part-time (still at $20/hour) on April 11 and their hours are not restored.
- Total cash compensation during Covered Period: $76,800 = (20 hours × $20/hour × 8 employees × 24 weeks)
- Total average full-time equivalency (FTE): 4 (average FTE for each part-time employee is 0.5)

1. Is FTE Reduction Safe Harbor 2 satisfied?
Step 1 - Borrower’s total average FTE between February 15, 2020 and April 26, 2020:
- Average FTE for each of the eight part-time employees:
  - 10 week period; reduction to part-time occurred 8 weeks in.
  - Avg. FTE: .9 = \( \left( \frac{8 \text{ weeks} \times 40 \text{ hours} + 2 \text{ weeks} \times 20 \text{ hours}}{10 \text{ weeks}} \right) \div 40 \)
- Total average FTE: 7.2 = .9 × 8 employees

Step 2 - Total FTE in pay period including February 15, 2020: 8
- Step 3 - Entry for step 2 is greater than step 1; therefore proceed to step 4

Step 4 - Total FTE as of December 31, 2020: 4

Step 5 - Safe Harbor NOT SATISIFIED

2. FTE Reduction Calculation on PPP Schedule A:
- Line 11. Average FTE during chosen reference period: 8
- Line 12. Total Average FTE during Covered Period: 4
- Line 13: FTE Reduction Quotient (Line 12 ÷ Line 11): \( \frac{4}{8} = .5 \)

Payroll and Nonpayroll Costs
- Line 1. Payroll Costs (enter the amount from PPP Schedule A, line 10):
- Line 2. Business Mortgage Interest Payments:
- Line 3. Business Rent or Lease Payments:
- Line 4. Business Utility Payments:
- Adjustments for Full-Time Equivalency (FTE) and Salary/Hourly Wage Reductions
- Line 5. Total Salary/Hourly Wage Reduction (enter the amount from PPP Schedule A, line 3):
- Line 6. Add the amounts on lines 1, 2, 3, and 4, then subtract the amount entered in line 5:
- Line 7. FTE Reduction Quotient (enter the number from PPP Schedule A, line 13):
- Potential Forgiveness Amounts
- Line 8. Modified Total (multiply line 6 by line 7):
- Line 9. PPP Loan Amount:
- Line 10. Payroll Cost 60% Requirement (divide line 1 by 0.60):
- Forgiveness Amount
- Line 11. Forgiveness Amount (enter the smallest of lines 8, 9, and 10):

Total: $12,800
- $76,800
- $0
- $89,600
- \( \frac{1}{2} \)
- $44,800
- $64,000
- $128,000
- $44,800

70% forgiveness

CLEARY GOTTLIEB
Example 5: Reducing Wages

During Covered Period: Borrower does not elect to use 8-week period following origination as Covered Period.

- **Wage reduction**: All eight employees are retained on a full-time basis, but each employee’s hourly wages are reduced from $20/hour to $10/hour on April 11, 2020 (and have not been restored to $20/hour as of December 31).
- **Total cash compensation during Covered Period**: $76,800 = (40 hours × $10/hour × 8 employees × 24 weeks)
- **Total average full-time equivalency (FTE)**: 8 (average FTE for each full-time employee is 1, regardless of salary reduction)

**Salary/Hourly Wage Reduction:**

Step 1 – Determine if pay was reduced by more than 25%:
- Divide average hourly wage during the Covered Period ($10/hour) by the hourly wage during the period January 1, 2020 – March 31, 2020 ($20/hour) = 50%
- Because the value is less than 75%, proceed to step 2.

Step 2 – Determine if Hourly Wage Reduction Safe Harbor is met.
- Average hourly wage between February 15 – April 26, 2020: $18 = ((8 weeks × $20) + (2 weeks × $10)) ÷ 10 weeks). This is less than average hourly wage as of February 15.
- Wages not reinstated by December 31, so SAFE HARBOR NOT SATISFIED.

Step 3 – Determine salary/hourly wage reduction
- 75% of prior wages: $15 = 75% × $20
- Amount of reduction below 75%: $5 = $15 - $10
- Wage reduction during Covered Period for each employee: $4,800 = $5 × 40 hours/week × 24 weeks
- Total wage reduction = $38,400 = $4,800 × 8 emps

*Note: Calculation is different if employees are salaried.*
Questions?