

SBA Streamlines Forgiveness for Smaller PPP Loans

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The Small Business Administration (SBA) has released new guidance intended to expedite the forgiveness process for certain borrowers under the Paycheck Protection Program (PPP). The simplified process generally is available for loans of \$150,000 or less, which the SBA reports account for 93% of outstanding PPP loans. The guidance comes at a time when many borrowers are nearing a critical deadline regarding their applications for forgiveness.

Forgiveness basics

PPP loans generally are 100% forgivable if the borrower allocates at least 60% of the funds to payroll and eligible nonpayroll costs. Borrowers may apply for forgiveness at any time before their loans' maturity date. Loans made before June 5, 2020, generally have a two-year maturity; loans made on or after that date have a five-year maturity.

However, if a borrower fails to apply for forgiveness within 10 months after the last day of the "covered period," its PPP loan payments will no longer be deferred. (The covered period is eight to 24 weeks following disbursement during which the funds must be used.) Such loans will become standard loans, and borrowers will be responsible for repaying the full amount plus 1% interest before the maturity date – unless the loan is subsequently forgiven. The 10-month period soon will expire for many so-called "first-draw" borrowers.

SBA's process improvements

The popularity of the PPP, as well as the requirement that lenders make forgiveness determinations within 60 days of receiving an application, has left many smaller lenders overwhelmed. Some are even limiting the time periods during which they'll accept forgiveness applications. This, in turn, has created confusion and concern among borrowers.

In response, the SBA recently issued an Interim Final Rule (IFR). The rule streamlines the forgiveness process for smaller loans through two avenues:

1) Direct borrower forgiveness. The SBA is providing a direct borrower forgiveness process for lenders that choose to opt in. At the time the guidance was released, more than 600 banks had opted in, enabling more than 2.17 million borrowers to apply through a new online portal scheduled to launch on August 4, 2021. Participating lenders will receive notice when a borrower applies through the SBA platform and will review applications and issue forgiveness decisions inside the platform. The SBA hopes this will reduce the wait time and uncertainty associated with applying through lenders.

2) COVID Revenue Reduction Score. The IFR also creates an alternative process for "second-draw" borrowers with loans of \$150,000 or less to document their reduced revenue. To qualify for such loans, a borrower must have experienced a revenue reduction of at least 25% during one quarter of 2020 compared with the same quarter in 2019. If a borrower didn't produce the necessary documentation when applying for the loan, it must do so on or before the date of application for forgiveness.

To make the revenue reduction confirmation process easier for such loans, an independent SBA contractor will assign every eligible second-draw loan a score based on several factors, including industry, geography, business size and current economic data. The score will be stored in the forgiveness platform and visible to lenders to document revenue reduction. If a borrower's score doesn't meet the value required to confirm the reduction, the borrower must provide documentation. If it does, no documentation is required.

Appeals and deferments

The IFR also extends the loan deferment period for borrowers who timely appeal a final SBA loan review decision. Under the previous rule, an appeal didn't extend the period so borrowers had to begin making payments of principal and interest on the unforgiven amount.

The IFR amends that rule to extend the deferment period until the SBA's Office of Hearings and Appeals issues a final decision. Appeals must be filed within 30 calendar days of receipt of the final SBA loan review decision, and borrowers should notify their lenders of appeals.

More to come

The SBA will release additional guidance regarding both the direct borrower forgiveness option and the COVID Revenue Reduction Score. We can help with your forgiveness application process and answer any questions you may have about your PPP loan.

Above all, we hope that you and your families are safe and healthy. If you would like additional information regarding the issues presented in this bulletin please contact Schmersahl Treloar at 314-966-2727.