



Small Business Administration (“SBA”) Payroll Protection Program (“PPP”) Preparing for Loan Forgiveness May 13, 2020

Independence Bank is providing this preliminary information to all SBA PPP customers to enable each borrower to begin preparing for the loan forgiveness process. Please note that we plan to send you a formal Loan Forgiveness Application (“LFA”) package by June 1, 2020. The LFA will include a detailed list of all information and documentation needed to calculate and process your loan forgiveness request.

This communication is based on preliminary guidance from the SBA as of May 5, 2020 and is subject to change

Key dates for the loan forgiveness process include:

1. The date of disbursement for your PPP loan proceeds
2. The date which is 8 weeks following disbursement of your PPP loan proceeds
3. The 8 week period following disbursement of your PPP loan proceeds is the “**Covered Period**”

Best Practices Preparation for Loan Forgiveness

Carefully document how you spend your PPP proceeds. Make sure you have documentation where you can access it when you apply for forgiveness, as well as the future if the SBA decides to audit your PPP loan.

Information Needed to Process Your Loan Forgiveness Application

Based on current guidance from the SBA, which as noted is subject to change, the loan forgiveness calculation involves the following inputs:

- A. The number of full-time equivalent (“FTE”) employees on your payroll as of various date ranges
 1. The term FTE has not been defined by SBA for purposes of the PPP as of May 4, 2020; however, borrowers should document: (i) actual number of both full-time and part-time employees in each pay period listed below; and (ii) total hours worked by part-time employees in each pay period listed below.
 - (a) Average FTE employees for each pay period during the Covered Period
 - (b) Average FTE employees for each pay period from 2/15/19 to 6/30/2019
 - (c) Average FTE employees for each pay period from 1/1/2020 to 2/29/2020
 2. A reduction in FTE employees between February 15 and April 27, 2020 is disregarded if the reduction is eliminated by re-hiring those laid off, hiring new employees, or making a good faith written offer to rehire that is rejected and documented, by June 30, 2020.
 3. For seasonal employers, the date ranges include:
 - (a) Average FTE employees for each pay period during the Covered Period
 - (b) Average FTE employees for an 8 week period from February 15 to June 30, 2019
 4. All computations for FTE employees should be prepared using an excel spreadsheet

B. Dollar amount of "Payroll Costs" during the Covered Period

1. Payroll Costs include gross salary, wages, commissions, vacation and sick pay, up to a maximum of \$15,384.61 per employee for the 8 week Covered Period – which is \$100,000 in annualized cash compensation
2. Payroll Costs do not include compensation paid for which a tax credit is allowed under the Emergency Paid Sick Leave Act (EPSLA) or the Emergency Family Medical Leave Expansion Act (FMLA)
3. Compensation or payments to independent contractors are not eligible Payroll Costs
4. Prepare a schedule of gross cash compensation listing each employee in excel format with columns for weekly pay for each of the 8 weeks of the Covered Period
5. Prepare an excel spreadsheet listing each employee whose gross salary or rate of compensation was reduced by 25% or more during the 8 week Covered Period as compared to the first calendar quarter of 2020 (please note for hourly employees, the 25% reduction percentage applies to the actual hourly rate); this spreadsheet should have the following columns:

NOTE: If you have not reduced salary or rate of pay by 25% or more for any employee, you may skip this section

- (a) Salary or rate of compensation paid during the first quarter of 2020;
 - (b) New salary or rate of compensation paid during the Covered Period;
 - (c) Percentage pay reduction [the difference between (a) and (b) above divided by (a)];
 - (d) Actual hours paid for each hourly employee during the Covered Period;
 - (e) Calculate the specific dollar amount of the compensation reduction during the Covered Period as follows: (i) for salary employees compare the actual salary paid during the Covered Period to the salary that would have been paid before it was reduced; and (ii) for hourly employees multiply the reduction in hourly rate by the actual hours paid during the Covered Period;
 - (f) The sum of compensation reduction for salary employees and hourly employees calculated in (e) above equals your "Salary Reduction" amount
6. Payroll Costs also include the following:
 - (a) Group health care benefit costs (including insurance premiums and union health & welfare benefits) paid during the Covered Period
 - (b) Retirement benefit costs including union retirement benefits
 - (c) State and local taxes on employee compensation (the most common will be employer paid state unemployment compensation tax and workers compensation tax); please note employer FICA and any other employer federal taxes are not considered Payroll Costs
 - (d) Prepare a schedule that reconciles all Payroll Costs paid during the Covered Period with your documentation.

C. Dollar amount of certain non-payroll costs incurred and paid during the Covered Period

1. Rent for obligations under a lease agreement in force before February 15, 2020
 - (a) Include rent paid for real estate and/or personal property
2. Utilities: Payment for business related utilities in service before February 15, 2020, including the following categories:
 - (a) Electric
 - (b) Gas
 - (c) Water
 - (d) Transportation (fuel costs for business vehicles)
 - (e) Telephone
 - (f) Internet access
3. Interest payments for covered mortgage obligations, but not prepayments of interest or any principal payments
 - (a) Mortgage may be on real estate and/or personal property
 - (b) Mortgage must have been incurred in the ordinary course of business
 - (c) Mortgage must have been incurred before February 15, 2020

D. If you have or had an SBA Economic Injury Disaster Loan (EIDL) that was incurred between January 31, 2020 and April 3, 2020, or an EIDL COVID-19 loan, be prepared to provide all details regarding dates and amounts for funding, repayment or refinancing as part of your PPP loan.

Documentation Needed to Process Your Loan Forgiveness Application

The SBA is clear on this point: No documentation = No forgiveness.

- Documents verifying the number of full-time equivalent employees on payroll and their pay rates, for the periods used to verify you met the staffing and pay requirements:
 - Payroll reports from your payroll provider
 - Payroll tax filings (Form 941)
 - Income, payroll, and unemployment insurance filings from your state
 - Documents verifying any retirement and health insurance contributions
- Documents verifying your eligible interest, rent, and utility payments (canceled checks, payment receipts, account statements)

Good record keeping and bookkeeping will be critical for getting your loan forgiven—you'll need to keep track of eligible expenses and their accompanying documentation over the eight weeks.

These documents are required in digital format, so take the time to scan any paper documents and keep backups of your digital records.

There is no guidance yet on whether the covered costs are to be included on a cash or accrual basis. We will distribute guidance on this question when it is received from the SBA. We believe the cash basis will be easier to support on your forgiveness application.