Q&A for Paycheck Protection Program Borrowers

If you have received a Sandy Spring Bank loan as part of the Small Business Administration's (SBA) Paycheck Protection Program (PPP), be sure to regularly review this information for important updates. Effective June 5, 2020, the Paycheck Protection Program Flexibility Act gives businesses 24 weeks to use the funds and still be eligible for forgiveness, up from the original 8-week requirement, and permits up to 40% of the loan to be used for non-payroll costs, up from the original 25% limit. This page will be updated with further information as it becomes available. Please plan to frequently visit the U.S. Department of the Treasury website here and the SBA website here to stay informed of all changes.

1. **Is PPP loan forgiveness automatic?**
   No, forgiveness is not automatic. A borrower must submit a request for forgiveness to the bank that provided the PPP loan.

2. **When is the earliest date that a borrower can request loan forgiveness from the lender?**
   With the passage of the Paycheck Protection Program Flexibility Act, borrowers now have 24 weeks to use the funds and still be eligible for forgiveness, up from the original 8-week requirement. Borrowers that received their loans before June 5, 2020, also have the option of using the original 8-week period. The covered period begins on the date the lender makes the first disbursement of the PPP loan to the borrower. A borrower may submit a loan forgiveness application before the end of the covered period if the borrower has used all of the loan proceeds for which the borrower is requesting forgiveness. See Question 7 for additional information.

3. **How can I request loan forgiveness?**
   If you have a PPP loan with us, you will need to submit a request for forgiveness from the SBA through Sandy Spring Bank. SBA's application requirements for loan forgiveness are available here for your reference. Currently, we are developing our processes to accept forgiveness applications. As additional information become available, this page will be updated, and we will email you with directions on how to request loan forgiveness. Our Client Service Center has no further information on loan forgiveness at this time. All information will be posted at sandyspringbank.com/sbappp.

4. **What should I do at this point?**
   Keep track of and organize eligible expenses. Please do not submit any documentation at this time.

5. **How much of the loan will be forgiven?**
   The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest. The borrower will not be responsible for the amount of the loan used during the 8 or 24 weeks after the loan is made for:
   - Payroll costs.
   - Interest payments on any business mortgage obligations on real or personal property that were incurred before February 15, 2020 (but not any prepayment of interest or payment of principal).

- Business rent payments on real or personal property, under lease agreements in force before February 15, 2020.
- Business utility payments for electricity, gas, water, transportation, telephone, or internet access, for which service began before February 15, 2020.

However, no more than 40% of the loan forgiveness amount may be attributable to non-payroll costs.

6. What counts as payroll costs?

Payroll costs include:

- Cash compensation such as salary, wages, commissions, or tips, plus items such as a housing stipend or allowance (capped at $15,385 per individual for eight weeks and $46,154 per individual for 24 weeks). Note that the higher per-individual maximum would only be reached if the borrower had reduced its FTEs but was eligible for an exemption from the resulting reduction in forgiveness. (See Question 10 for limits on owner compensation replacement.)
- Employer contributions to defined-benefit or defined-contribution retirement plans.
- Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums.
- Costs for employee vacation, parental, family, medical, and sick leave, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of the Families First Coronavirus Response Act (FFCRA) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA.
- State and local taxes assessed on compensation.

7. Is there an option for borrowers to calculate payroll costs that aligns with borrowers' regular payroll cycles?

Yes. For administrative convenience, borrowers may elect to calculate eligible payroll costs using the 24-week period (or for loans received before June 5, 2020, the 8-week period) that begins on the first day of their first pay period following disbursement of their PPP loan. For example, if the borrower received its PPP loan proceeds on Monday, April 20, and the first day of its first pay period following its PPP loan disbursement is Sunday, April 26, then the first day of the alternative payroll covered period is April 26 and the last day is Saturday, October 10. This alternative period can be used only for payroll costs. Eligible non-payroll costs must be paid during the 24-week or 8-week period following disbursement of the PPP loan proceeds. In no event may the 24-week covered period extend beyond December 31, 2020.

8. Do eligible payroll costs include amounts earned by employees during the 24-week or 8-week covered period and paid after the end of the covered period?

Borrowers are eligible for forgiveness for the payroll costs paid and payroll costs incurred during the 24-week or 8-week covered period. Payroll costs are considered paid on the day that paychecks are distributed or the borrower originates an ACH credit transaction. Payroll costs are considered incurred on the day that the employee's pay is earned. Payroll costs incurred but not paid during the borrower's last pay period of the covered period are eligible for forgiveness if paid on or before the next regular payroll date. Payroll costs that were both paid and incurred during the covered period may be counted only once.

9. **Are salary, wages or commissions paid to furloughed employees, bonuses or hazard pay during the covered period eligible for loan forgiveness?**
   Yes, subject to the cap described in Question 6.

10. **How can individuals with income from self-employment who file a 2019 Form 1040, Schedule C use PPP loans?**
    The proceeds of a PPP loan are to be used for the following:
    - Owner compensation replacement, limited to eight weeks' worth (8/52) of 2019 net profit (up to $15,385) for an 8-week covered period or 2.5 months' worth (2.5/12) of 2019 net profit (up to $20,833) for a 24-week covered period, calculated in the same manner as for the loan amount, but excluding any qualified sick leave equivalent amount for which a credit is claimed under section 7002 of FFCRA or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA.
    - Employee payroll costs (as described above) for employees whose principal place of residence is in the United States, if the borrower has employees.
    - Payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments).
    - Rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments).
    - Utility payments under service agreements dated before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business utility payments).
    - Interest payments on any other debt obligations that were incurred before February 15, 2020 (such amounts are not eligible for PPP loan forgiveness).

11. **Should payments made to an independent contractor be included in calculations of payroll costs?**
    No. Any amounts paid to an independent contractor should be excluded from payroll costs.

12. **Do eligible non-payroll costs include obligations incurred during the 24-week or 8-week covered period and paid after the end of the covered period?**
    Yes. An eligible non-payroll cost must be paid during the covered period or incurred during the covered period and paid on or before the next regular billing date, which may be after the covered period. Non-payroll costs that were both paid and incurred during the covered period may be counted only once.

13. **Will a borrower's PPP loan forgiveness amount be reduced if the borrower laid off an employee, offered to rehire the same employee, but the employee declined the offer?**
    No. Employees whom the borrower offered to rehire (for the same salary/wages and same number of

hours) are generally exempt from the CARES Act's loan forgiveness reduction calculation. To qualify for this exception:

- the borrower must have made a good faith, written offer of rehire (or, if applicable, to restore the reduced hours of the employee) during the covered period;
- the offer must be for the same salary or wages and the same number of hours as earned by the employee in the last pay period prior to the separation or reduction in hours;
- the offer was rejected by the employee;
- the borrower has maintained records documenting the offer and its rejection; and
- the borrower informed the applicable state unemployment insurance of the employee's rejected offer of reemployment within 30 days of the employee's rejection of the offer.

14. Will a borrower's PPP loan forgiveness amount be reduced if the borrower is unable to fully reopen its business?

No. The amount of loan forgiveness will be determined without regard to a proportional reduction in full-time equivalent employees if the borrower is able to document an inability to return to the same level of business activity as such business was operating at before February 15, 2020, due to compliance with requirements established or guidance issued by HHS, CDC or OSHA during the period from March 1, 2020 through December 31, 2020, related to the maintenance of standards for sanitation, social distancing or any other worker or customer safety requirement related to COVID-19. Compliance with state or local shutdown orders that reference HHS, CDC or OSHA requirements or guidance will be sufficient to establish compliance with federal requirements.

15. How should a borrower account for federal taxes when determining its payroll costs for purposes of the allowable uses of a PPP loan and the amount of a loan that may be forgiven?

Payroll costs are calculated on a gross basis without regard to (i.e., not including subtractions or additions based on) federal taxes imposed or withheld, such as the employee's and employer's share of the Federal Insurance Contributions Act (FICA) and income taxes required to be withheld from employees. As a result, payroll costs are not reduced by taxes imposed on an employee and required to be withheld by the employer, but payroll costs do not include the employer's share of payroll tax. For example, an employee who earned $4,000 per month in gross wages, from which $500 in federal taxes was withheld, would count as $4,000 in payroll costs. The employee would receive $3,500, and $500 would be paid to the federal government. However, the employer-side federal payroll taxes imposed on the $4,000 in wages are excluded from payroll costs under the statute.

16. Can a PPP loan be used to refinance an Economic Injury Disaster Loan (EIDL)?

A PPP loan can be used to refinance an SBA EIDL loan made between January 31, 2020 and April 3, 2020. If the EIDL loan was used for payroll costs, the PPP loan must be used to refinance the EIDL loan. Proceeds from any advance up to $10,000 on the EIDL loan will be deducted from the loan forgiveness amount on the PPP loan.

17. How does the borrower establish the amount of payroll costs eligible to be forgiven?

The borrower must submit documentation to Sandy Spring Bank supporting the request for loan forgiveness. Documentation for payroll costs should include:

- Bank account statements or third-party service provider reports for the periods that overlap with the covered period.
- Payroll tax filings reported, or that will be reported, to the IRS and state income, payroll and unemployment insurance filings. If the borrower has employees, the borrower should submit Form 941 and state quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that best correspond to the covered period.
- Payment receipts, cancelled checks or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that the borrower included in the forgiveness amount.
- Canceled checks, payment receipts, transcripts of accounts, or other documents verifying payments on covered mortgage obligations, covered rent or lease obligations and covered utilities.

18. How does the borrower establish the amount of non-payroll costs eligible to be forgiven?

Documentation for non-payroll costs should include:

- For mortgage interest payments: Copy of the amortization schedule and receipts or cancelled checks for payments during the covered period, or lender account statements from February 2020 and the months of the covered period through one month after the end of the covered period verifying interest amounts and eligible payments.
- For rent or lease payments: Copy of the lease agreement and receipts or cancelled checks for payments during the covered period; or lessor account statements from February 2020 and the months of the covered period through one month after the end of the covered period verifying eligible payments.
- For utility payments: Copies of invoices from February 2020 and those paid during the covered period and receipts, cancelled checks or account statements verifying those eligible payments.

19. How could the forgiveness be reduced?

The amount of the loan that will be forgiven will be reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to any employee. However, see questions 13 and 14 for exceptions to loan forgiveness reduction.

Specifically, the amount of the loan that will be forgiven will be reduced by multiplying the loan forgiveness amount by the average number of full-time equivalent employees (FTEs) per month for the 24-week or 8-week covered period divided by either the average number of FTEs per month from February 15, 2019 to June 30, 2019 or, at the election of the borrower, the average number of FTEs per month from January 1, 2020 to February 29, 2020. Seasonal employers will use the average number of FTEs per month from February 15, 2019 to June 30, 2019. This calculation is subject to change in accordance with the PPP Flexibility Act.

In addition, for any employee who did not earn during any pay period in 2019 wages at an annualized rate of more than $100,000, the loan forgiveness amount will be reduced by the amount of any reduction in wages that is greater than 25% compared to the wages of the employee during the most recent full quarter before loan origination. This reduction is performed on a per employee basis, not in the aggregate.

To avoid double counting, the salary/wage reduction applies only to the portion of the decline in employee salary and wages that is not attributable to the FTE reduction.

20. What if the borrower brings back employees or restores wages?

Reductions in the number of FTEs that occur during the period beginning on February 15, 2020 and ending on April 26, 2020, as compared to the number of FTEs paid on February 15, 2020, will not reduce the amount of loan forgiveness if by not later than December 31, 2020 the borrower restores its FTE level to the level in the pay period that included February 15, 2020.

Reductions in salaries or hourly wages by more than 25% during the 24-week or 8-week covered period as compared to the period of January 1, 2020 through March 31, 2020 will not reduce the amount of loan forgiveness if the average annual salary or hourly wage as of the earlier of December 31, 2020 and date of the forgiveness application is equal to or greater than the annual salary or hourly wage as of February 15, 2020.

21. What is the timeline for obtaining loan forgiveness?

The lender must issue a decision to SBA on a loan forgiveness application not later than 60 days after receipt of a complete loan forgiveness application from the borrower. SBA will, subject to any SBA review of the loan or loan application, remit the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment, not later than 90 days after the lender issues its decision to SBA.

22. If less than 100% of the loan is forgiven, when will payments on the remaining balance begin?

Payments on any remaining balance of the PPP loan will begin after the bank that made your PPP loan receives the forgiveness amount from the SBA. If you received your PPP loan from Sandy Spring Bank and less than 100% of the loan is forgiven, we will notify you of your payment amount and the date your first payment is due following receipt of the forgiveness amount from the SBA. If the borrower does not submit a loan forgiveness application within 10 months after the end of the 24-week covered period, the borrower must begin making payments of principal and interest.