

PAYCHECK PROTECTION PROGRAM

FORGIVENESS WEBINAR

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DISCLAIMER

The Paycheck Protection Program has undergone several changes from its introduction. The material provided in this webinar is accurate as of the date of its broadcast. If there are additional changes made to the program information provided in the webinar may no longer be accurate.

Continue to visit our PPP Forgiveness Resource Center or contact your banker with questions on changes to the Paycheck Protection Program.

AGENDA

- Welcome
- Applying for PPP Loan Forgiveness
- Demo of PPP Forgiveness Application Process
- Resources
- Questions and Answers

REMINDER: KEY FACTS ABOUT THE PAYCHECK PROTECTION PROGRAM (PPP)

- PPP is a \$660B U.S. Small Business Administration (SBA) loan program for businesses negatively impacted due to the COVID-19 outbreak
- Program has been extended from June 30 to August 8
- PPP expanded SBA loan eligibility
- Incentivizes businesses to retain employees and rehire any employees already laid off or furloughed due to the outbreak
- Maximum loan size is 250% of average monthly payroll costs
- SBA guarantees 100% of the outstanding balance
- Borrower is assessed no SBA fees

PPP Flexibility Act (PPPFA) was signed on June 5, 2020

- PPPFA extended forgiveness period from 8 weeks to the earlier of 24 weeks or December 31, 2020
- PPPFA modified the percent of funds that must be used on payroll costs for forgiveness from 75% to 60%
- PPPFA extended the term of PPP from 2 years to 5 years for loans originated after June 5, 2020
- PPPFA extended PPP payment deferral until the lender receives a forgiveness payment from the SBA provided that deferral ends ten months after the earlier of the end of the 24-week forgiveness calculation period or December 31, 2020, if the borrower does not apply for forgiveness by that time.

BACKED BY HEARTLAND FINANCIAL USA, INC., OUR BANK AND HOLDING COMPANY ARE STRONG.



\$15B

Assets

0

Annual Losses

40th

Forbes Best Bank
in America 2020

11

Charters

12

States

83

Communities

114

Banking Locations

LOCAL PARTNERS.
LIMITLESS POTENTIAL.

WHEN SHOULD I APPLY FOR FORGIVENESS? NOW OR LATER?

Things to consider:

Are you currently eligible for full forgiveness under the current PPP program rules?

Will proposed program changes make it more likely your loan will be fully forgiven or simplify your application process?

Do you anticipate a change in circumstances that may be impacted by the status of your forgiveness application (i.e. sale of a business)?

As of July 23, the SBA has stated that it will begin accepting PPP forgiveness applications from banks on August 10, 2020... but this date has and may yet again change

WHEN SHOULD I APPLY FOR FORGIVENESS? NOW OR LATER?

Under the current PPP program rules:

1. In general, you will not be required to pay principal or interest unless your loan is not fully forgiven.
2. If your loan is not fully forgiven, principal and interest payments will not begin until the SBA pays your forgiveness amount to the bank.
3. Most borrowers can elect to use an 8 or 24 week “covered period,” with the longer period allowing more weeks of expenses to be included in the gross amount of eligible expenses included in your application.
4. Whether you can take full advantage of the gross amount of eligible expenses for the covered period you select will depend in part on whether your full-time employees or compensation paid has decreased as of a point in time and if the effect of any decrease can be avoided using a safe harbor.

You may apply for forgiveness during or after the end of your covered period but you may start using our forgiveness tool at any time to help you estimate the amount that may be forgiven, including the impact of changes in the circumstances described in items 3 and 4 above.

WHEN SHOULD I APPLY FOR FORGIVENESS? NOW OR LATER?

The rules governing PPP forgiveness may change

1. There is legislation being negotiated that may streamline the forgiveness process or increase the types of expenses that can be included in the gross amount included in your application.
 - These additional expenses may include certain other supplier costs, operating expenses and civil unrest damages
 - There may also be more generous calculations for farmers and rancher
 - A more streamlined or automatic forgiveness process may apply to loans less than \$150,000
2. If our loan application tool indicates you may not be eligible for full forgiveness under current PPP rules, you may want to wait to see the outcome of these legislative efforts.
3. We will update our loan application tool as soon as possible after any rule changes are adopted.
4. There are other initiatives being considered by Congress (PPP2 and working capital loans) that are expected to be separate programs that do not impact the terms or forgiveness of your current PPP loan.

USE OUR ONLINE CALCULATOR TOOL TO HELP YOU MAXIMIZE FORGIVENESS

Use the online calculator to estimate forgiveness (you can pause your application and make changes at any time before clicking “submit”)

Calculate different scenarios to maximize your forgiveness

We will be better able to provide you guidance after you have entered your available information into our application tool

PPP LOAN FORGIVENESS MUST BE REQUESTED USING ONLINE TOOL PROVIDED BY CITYWIDE BANKS

- Requests for forgiveness should be provided to the lender
- No more than 40% used on non-payroll expenses
- Potential forgiveness for amounts spent over the 8-week or 24 week period after loan origination on payroll costs, eligible mortgage, lease and utility obligations
- Documents must be verified as true and the business used the forgiveness amount to keep employees and make eligible mortgage interest, rent and utility payments
- Lenders allowed 60 days to approve PPP forgiveness application for submission to the SBA
- SBA should provide the forgiveness payment within 90 days after Lender submits forgiveness application to the SBA. The forgiveness amount is applied to the loan when payment is received by the Lender from the SBA

DOCUMENTATION WILL BE REQUIRED WHEN REQUESTING LOAN FORGIVENESS

- 3508 or 3508EZ
- Payroll Costs Support
- Mortgage Interest Support
- Lease/Rent Support
- Utilities Support
- Other Support
- Number of FTE's Support
- Forgiveness Calculation

Customers will receive communication from the bank at various stages during the Forgiveness process:

- The Bank has received your PPP Forgiveness Application
- We have approved your PPP Forgiveness Application and have submitted to the SBA
- During the review of your PPP Forgiveness Application the Bank has identified that additional documentation is needed
- The Bank has received communication from the SBA that your PPP Forgiveness Application has been rejected and additional documentation is required
- The Bank has received approval of your PPP Forgiveness Application from the SBA

DEMO

Submitting a PPP Forgiveness Application

PPP Forgiveness Resource Center on website

www.CitywideBanks.com/PPP-Forgiveness-Resources



Question and Answer

APPENDIX

**LOCAL PARTNERS.
LIMITLESS POTENTIAL.**

GENERAL ELIGIBILITY FOR PAYCHECK PROTECTION PROGRAM

- A small business with 500 employees or less
- A small business that otherwise meets the SBA's size standard
- A 501(c)(3) with 500 employees or less
- An individual who operates as a sole proprietor
- An individual who operates as an independent contractor
- An individual who is self-employed who regularly carries on any trade or business
- A Tribal business concern that meets the SBA size standard
- A 501(c)(19) Veterans Organization that meets the SBA size standard

Normal SBA affiliation rules apply, except:

- If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- If you are operating as a franchise or receive financial assistance from an approved Small Business Investment Company, the normal affiliation rules do not apply

REMEMBER: The 500-employee threshold includes all employees: full-time, part-time, and any other status.

PPP LOAN TERMS ARE EXTREMELY ADVANTAGEOUS TO BUSINESSES.

INTEREST RATE: 1.0%

TERM: 2 years if originated before June 5
5 years if originated after June 5

PAYMENT DEFERMENT PERIOD:

OTHER DETAILS:

- No collateral
- No personal guarantee
- No PPP-related fee should be collected from attorneys, accountants, consultants, etc.
- Guaranteed by the SBA

THE SBA REQUIRED THE FOLLOWING CERTIFICATIONS FROM BORROWERS

Borrowers provided a good faith certification that:

1. The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations
2. The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease and utility payments.
3. Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here.
4. From Feb. 15, 2020 to Dec. 31, 2020, the borrower has not received a loan duplicative of the purpose and amounts applied for here

(Note: There is an opportunity to convert emergency loans made between Jan. 31, 2020, and the date this loan program becomes available into a new PPP loan)

SAFE HARBOR INFORMATION

1. Borrowers that applied for the PPP loan prior to the SBA's updated rules on April 23, and on April 28, and paid it back in full by May 7, will be considered by the SBA to have made the certification in good faith. If the certification is found not to have been made in good faith, there are potential civil or criminal penalties that could apply.
2. SBA has previously stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by SBA for compliance with program requirements set forth in the PPP Interim Final Rules and in the Borrower Application Form.
3. If SBA determines in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the loan after receiving notification from SBA, SBA will not pursue administrative enforcement or referrals to other agencies based on its determination with respect to the certification concerning necessity of the loan request.

PPP LOANS CAN BE UP TO 2.5X THE BORROWER'S AVERAGE MONTHLY PAYROLL COSTS, NOT TO EXCEED \$10 MILLION

INCLUDED IN PAYROLL COSTS:

- 1. For Employers:** The sum of payments of any compensation with respect to employees that is a:
 - salary, wage, commission, or similar compensation;
 - payment of cash tip or equivalent;
 - payment for vacation, parental, family, medical or sick leave
 - allowance for dismissal or separation
 - payment required for the provisions of group health care benefits, including insurance premiums
 - payment of any retirement benefit
 - payment of state or local tax assessed on the compensation of the employee
- 2. For Sole Proprietors, Independent Contractors and Self-Employed Individuals:**

The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

EXCLUDED FROM PAYROLL COSTS:

1. Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020
2. Payroll taxes, railroad retirement taxes and income taxes
3. Any compensation of an employee whose principal place of residence is outside of the United States
4. Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116–5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act

REDUCTION IN FORGIVENESS DUE TO REDUCTION IN FTES

Extended Time to Re-hire Employees: The amount eligible for loan forgiveness may still be reduced if an employer reduced the amount paid to employees or its total FTEs from the levels that existed on February 15, 2020. Previously, reductions could be avoided to the extent that FTEs increased to prior levels as of June 30, 2020. Borrowers now have until December 31, 2020, to increase compensation and employees to prior levels.

Safe Harbors for Inability to Hire or Return to Prior Level of Business Activity: Reductions in FTEs will not result in a reduction in loan forgiveness if a borrower: (1) certifies, in good faith, both an inability to re-hire individuals who were employees of the borrower on February 15, 2020, and an inability to hire similarly qualified employees for unfilled positions on or before December 31, 2020; or (2) can 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 the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration during the period beginning on March 1, 2020, and ending on 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.