

Many of you who applied for a PPP loan experienced the lack of guidance and clarity that surrounded the application process. The topic of loan forgiveness has been much of the same and we wanted to provide a brief resource to consolidate the latest information on the topic. This memo is based on the latest guidance from the CARES Act, Treasury Department and the SBA as of April 23, 2020, and will be updated on an ongoing basis as new information is released.

Key takeaway

If you spend 100% of the proceeds on payroll costs, mortgage interest, rent and utilities during the 8 weeks following the loan disbursement, and you have an average number of employees during that 8 week period equal to or higher than either 1/1/20-2/29/20 or 2/15/19-6/30/19, and you haven't reduced any individual employee compensation by 25% or more, ***your loan will be 100% forgiven.***

Calculating forgiveness

Your PPP loan will be forgiven up to the amount of "costs incurred and payments made" for payroll costs, payment of interest on mortgage obligations, payment on rent obligations and utility payments. Funds cannot be used to pre-pay mortgages or pay down existing debt. The language does not distinguish between cash basis or accrual basis for costs, but our current expectation is that actual cash spent will be acceptable and easy to report. If accrual basis is allowed it will likely be only for payroll costs and the other categories will require actual cash spent.

In order to receive maximum forgiveness, you must also comply by the following rules:

- Payroll costs must account for at least 75% of your forgivable costs. If you do not meet this threshold, the amount of forgivable costs will be reduced until this threshold is met.
- You must maintain a minimum headcount. The average number of employees in the 8-week forgivable period must be equal to or higher than the average number of FTE from either period ranging from 1/1/20-2/29/20 or 2/15/19-6/30/19, at your discretion. If the ratio of your current FTE to that of the previous period is less than one, your forgivable costs will be reduced by the corresponding amount.
- You cannot meaningfully reduce wages for your employees. If you reduce gross salary and wages for any employee making less than \$100k annualized by more than 25% you will be subject to another deduction in the amount of forgivable costs.

These headcount and salary related conditions are disregarded if the number of employees and/or gross salaries are restored to a benchmark level by June 30th, however there is not much in the way of formal guidance around this exception. We have few details at this time and will keep you updated as we learn more (expect that guidance will be released in the next few weeks).

We've created a forgiveness calculator that you can download on our website to help you estimate your loan forgiveness amount (www.pacificlake.com/covid-19). We encourage you to complete the estimate calculator soon, so that you can consider ways to achieve full forgiveness (i.e. timing of rent and utility payments, one time employee bonuses, payment of employee benefits or retirement benefits). Don't hesitate to reach out to Chris Hendriksen (chris.hendriksen@pacificlake.com) or Jack Bulmer (jack.bulmer@pacificlake.com) if you have any questions, or want to discuss the loan forgiveness provisions.

As a reminder, you will need supporting documentation to support your loan forgiveness application. We recommend having an open line of communication with your lender – who will be reviewing your application for forgiveness – to align on what is needed, and having a plan for what reporting and documentation will be required so that you can begin preparing it before the 8 week period is over.