

So You Want Your PPP Loan Forgiven? Make Sure You Submit This Application

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The Paycheck Protection Program (PPP) – the U.S. government’s lifeline for small businesses during the Covid-19 pandemic – sent out a total of nearly \$800 billion to help companies keep staff on their payrolls in 2020 and 2021. PPP loan applications officially closed on May 31 after the available funds were exhausted sooner than analysts originally predicted.

But confusion remains about the loans. The term “loan” in and of itself isn’t entirely accurate, because the required “forgiveness” follow-up application effectively makes the loan a grant – as long as certain requirements are met.

Contrary to what many might think, forgiveness isn’t automatically granted or guaranteed. Why? When the pandemic began, Congress wanted to help small businesses through the crisis. The U.S. Small Business Administration (SBA) wasn’t equipped to distribute those grants, but it was equipped to approve loans. Overhauling that process takes time, and Congress had to act.

Related: [3 Lessons on PPP Loan Forgiveness From Small-Business Owners](#)

In execution, the process worked like this: Small businesses

applied for and received PPP loans. During the covered period, they spent those loans on the appropriate items, primarily payroll. Now, they have to apply for forgiveness with their lenders and provide the required documentation in order to have the loans forgiven. Lenders have 60 days to respond to these requests.

To date, more than 3.3 million loans – worth a total of \$279.4 billion – have been forgiven, according to the SBA. That leaves nearly \$159.1 billion in loans left to forgive, but the businesses with these loans first have to take action and apply.

Will your PPP loan be forgiven?

In general, your business can expect loan forgiveness if you kept or rehired employees while still maintaining pre-pandemic salary levels, spent at least 60 percent of the loan on payroll and spent the other 40 percent on other qualified expenses. Even if your company doesn't meet these criteria (if your headcount or salaries decreased, for instance), you might still be eligible for partial forgiveness.

Related: PPP Loan Forgiveness Period Beginning to Close; Payments May Be Due

Still, there are a number of misconceptions when it comes to loan forgiveness and the PPP process in general. Some small business owners erroneously assume that the PPP is just for big businesses. But as long as a company has fewer than 500 employees and was operating on Feb. 15, 2020, it is eligible. Some sole proprietors and independent contractors are even eligible to apply.

Other businesses assume that if they're receiving other forms of financial assistance, they aren't eligible to also receive a PPP loan. This is not true. In fact, many businesses received a PPP loan as well as other SBA financial assistance,

such as the Economic Injury Disaster Loan (EIDL) and 7(a) loans. However, it is worth noting that organizations can't use their PPP funding and EIDL loan for the same payments.

Finally, many business owners think the forgiveness process is too complicated and that their business might not qualify. This couldn't be further from the truth. Full forgiveness isn't guaranteed, but if you use or used the PPP proceeds according to the rules, forgiveness is likely and certainly worth pursuing. Even if forgiveness isn't possible, the loan terms are generally much better than most – 1 percent annual percentage rate for 60 months with payments deferred up to 10 months after that.

Preparing for the PPP forgiveness application process

If you haven't applied for forgiveness, don't wait any longer. Having the PPP on your books could hurt your ability to get financing with some lenders who want to see the loan cleared first. That said, here are three ways to prepare for applying:

1. Review the time frame and make a plan

PPP loan forgiveness happens in phases. Applications are open for loans funded through Feb. 28, 2021. That will progressively open up over the next several weeks. You may submit a loan forgiveness application at any time on or before the loan's maturity if you've used all of the proceeds.

Related: SBA Releases New EZ PPP Loan-Forgiveness Application

The good news is that the process is likely much easier than you think if you follow instructions and apply on time. Jill Draper, a yarn shop owner in upstate New York, said she

essentially had to fill in a few boxes on a mostly auto-filled form from her bank. Ten days later, she received an email confirming her loan was forgiven in full.

2. Make sure you're spending your money the right way to qualify

Remember: At least 60 percent of your PPP loan needs to go to payroll, with the other 40 percent to qualified expenses. You'll need to provide documentation on your loan forgiveness application, so it's important you keep good records and can supply a breakdown of how you spent funds within each expense category.

What should you avoid spending your PPP loan funds on? As 22 people who committed PPP fraud found out the hard way, jewelry, cars and other luxury personal items are off-limits.

3. Work with your lender to dig into the details

Your lender is your guide in this process. Ask them to help you distinguish between a PPP1 and PPP2 loan. The process is more difficult for the former than the latter (one page versus 13 pages). Your lender will help ensure you are following all the proper protocols for your specific situation.

The SBA just announced a consumer-facing online platform where businesses can apply for PPP loan forgiveness. For loans of \$150,000 or less – which account for 90 percent of the PPP loans yet to be paid off – businesses can apply for forgiveness on their own. For businesses with loans over that \$150,000 threshold, the SBA requires lenders to negotiate directly with them. It's important to keep your lender in your corner and lean on them for support. The SBA is the final decision maker when it comes to loan forgiveness, but your

lender will act as your advocate to try and give you the best chance of successful and complete forgiveness.

PPP loans were designed to be forgiven, but small businesses still need to apply for that forgiveness for it to become reality. By knowing the timelines, keeping good financial records and working closely with your lender, you will set your business up for success in getting that loan forgiven in full, further benefiting your business and enabling it to move forward in a strong position.

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