PPP Loan Management and Forgiveness

By Jeanne Bell

Where are most nonprofits at this point in the year when it comes to managing their PPP loans and applying for forgiveness?

Most nonprofits we've interacted with were able to secure loans between April and early June. One of the changes to PPP in early summer was that organizations could elect to use either an eight-week period or a 24-week period to spend down their loan. In PPP terms, this is the "Covered Period." With many electing to use the 24-week Covered Period, that means most organizations wrapped up using PPP funds by mid-November, if not sooner, and most are ready to start applying for forgiveness. We are now seeing an uptick in nonprofits applying for forgiveness, with some already getting notices back from their lenders that they've received full forgiveness, which we love seeing.

A couple of reminders: If organizations are ready to apply for forgiveness, they should check to see if their lender is ready to accept applications and be sure they understand their lender's process. If you are not yet ready to apply for forgiveness, not to worry. Borrowers have effectively up to 10 months from the end of their Covered Period to apply for forgiveness without incurring any penalty.

What updates from the Small Business Administration (SBA) or Congress should nonprofits be aware of related to PPP?

Since July, things have been pretty slow in terms of new PPP guidance. Congress has not passed any new legislation to either make the PPP forgiveness process easier (or automatically forgive loans below a certain size) or to make a second round of PPP available for those organizations still hurting in this economic crisis. We'll have to see what happens over the next couple of weeks as Congress debates another round of COVID relief.

The biggest changes from the SBA that apply to nonprofits are:

- There is a new streamlined forgiveness application for organizations with loans $50,000 or less. While not granting automatic forgiveness, it is a simple form that requires some backup documentation and does not penalize organizations if they have had to make reductions in workforce or wages during their Covered Period.

- For those with loans above $2 million, which will all be subject to an audit, there is a new Loan Necessity Questionnaire that organizations need to complete that asks a lot of detailed questions about an organization's financials and how they've responded to COVID. But many are calling into question the information being requested including 82 national organizations that sent a joint letter opposing many components of the Questionnaire.
- In response to a lawsuit, the SBA has released details on all PPP loans available here at SearchPPP.com.

What issues are nonprofits running into when navigating forgiveness?

The most common questions we have been receiving are around:

We're ready to apply. How do we get started?

The SBA put out a quick fact sheet on the steps. You'll start by seeing if your lender is starting to process applications and if they're using an online portal or accepting applications over email. You will fill out the application including doing some calculations, gather backup documentation, and submit the required information to your lender. They'll then review and, if ready, send your application to the SBA for their review.

Which forgiveness application form should I use?

There are three forms to choose from: Streamlined, EZ, and Standard. They're all available on the Treasury and SBA websites along with separate instructions, and some lenders have been converting these forms into questions in their online portals.

Streamlined is simple—did you have a loan of $50,000 or less? Understanding if you can use the EZ is actually not that easy when you look at the specific criteria for using the form; it requires some interpretation. Completing the EZ form also still requires a good number of calculations and backup documentation. While others do qualify, the EZ is generally best for organizations that didn't reduce any of their employees' salaries/hourly rates and didn't have anyone leave the organization in 2020. So, if you're unsure if you can use the EZ after looking through the instructions or our guidance, we encourage you to use the standard application.

How do I calculate FTEs?

There are number of places throughout the applications where organizations need to show the number of full-time equivalent employees (FTEs) they had at different points in time. This is not the same as "headcount." FTEs can be confusing to calculate, and the SBA has two methodologies for calculating that nonprofits need to choose from. One methodology that is gaining more attention, especially among those with a lot of hourly employees, is the Simplified Method where someone who was paid for 40 or more hours is 1.0 FTE and anyone less than 40 is 0.5.

We have several resources available on the PPP Toolbox to help with understanding and calculating FTEs, including an Average FTE Calculator. We encourage organizations to see if their payroll provider has any autogenerating PPP Forgiveness Reports to help show how much was spent on payroll expenses during the Covered Period and calculate FTEs.

We receive restricted funding to cover similar expenses to what PPP could be used for. Does that mean we can't receive full forgiveness?

To support nonprofits with this question, we've put out guidance on navigating the interaction of restricted funding and PPP, available on our PPP Toolbox. You will want to ensure you don't "double dip," meaning claiming the exact same expense as a spend-down of more than one revenue source.

But the good news for many nonprofits is that you could still be eligible for full forgiveness even if you received both restricted funding and a PPP loan. Why? PPP was only meant to cover about two months of specific payroll and non-payroll expenses. So, we're seeing some nonprofits use their restricted grant funding to cover what PPP couldn't cover, whether it is for salaries or other critical expenses needed to carry out programs. Given the 24-Week Covered Period option, we're also seeing nonprofits spread out spending down their PPP funding.

For some nonprofits that receive a significant amount of restricted funding, you still may need to pay back some of the PPP loan, but we encourage you to create a schedule showing what sources of funding were used to cover what specific expenses before assuming you will need to reduce the PPP forgiveness amount.

Outside of filling out the forgiveness application itself, what other issues related to PPP are nonprofits facing?

One major issue we're seeing nonprofits grapple with is how their PPP loan is showing up on their financial statements and how they then explain the implications to their board and funders. For many, it is leading to results that don't really show the true health of an organization.

By way of background, most organizations have options for how to report PPP in this year's audited financial statements. To try and simply state what might be a very complicated subject, if a nonprofit chooses to wait until their lender formally tells them their forgiveness results before recognizing PPP funds as revenue, they will likely have their PPP loan reported as debt on their year-end balance sheet. Under a second option, a nonprofit can choose to treat PPP as a conditional contribution, recognizing the revenue when the nonprofit believes they've met the PPP conditions for obtaining forgiveness even if they haven't received the results from the lender yet.

For some organizations, especially those choosing the first option, this means they spent the proceeds from PPP in one fiscal year and get their forgiveness results the next fiscal year—leading some nonprofits to show deficits in the year they were using PPP and maybe a surplus the next fiscal year. The second issue that is tied to this is financial planning for life after PPP. Getting PPP was a critical lifeline to keep employees getting paid when other revenue sources were in question or eliminated—but what happens after? For organizations that just got by because of PPP, they may still need to think about reducing staffing costs and other expenses as revenue from in-person activities, fundraising events and other sources may still be slow to ramp back up.

https://nonprofitquarterly.org/ppp-loan-management-and-forgiveness-a-timely-interview-with-fma