



Paycheck Protection Program – Loan Forgiveness Frequently Asked Questions (FAQ) as of 2/18/2021

Thank you for applying for a Paycheck Protection Program (PPP) loan with Montecito Bank and Trust. We hope the loan has been helpful in supporting and sustaining your business. We understand the criticality of the PPP forgiveness phase, and assure you we are committed to supporting each of our PPP borrowers throughout this process. You may also follow and reference current and past guidance posted on the U.S. Department of the Treasury website, [here](#). We appreciate your patience throughout this process, and hope that you stay safe and healthy.

How and when do I apply for forgiveness?

If you received a PPP loan in 2020 through Montecito Bank & Trust you can apply for forgiveness online using one of three applications. You are eligible to apply for forgiveness at the end of your 8- or 24-week covered period; you **must apply for forgiveness before the expiration of your Deferral Period** (10 months following the close of your covered period) or the loan will convert to a 1% term loan and payments will become due.

What percentage of the loan proceeds have to be used for payroll?

Borrowers must use 60% or more of the loan funds on payroll expenses to receive full forgiveness. If you use less than 60% of the funds for payroll costs during the covered period it could affect the amount of forgiveness granted.

What is the length of the “Loan Forgiveness Covered Period” for a PPP Loan?

The “Loan Forgiveness Covered Period” is the period during which funds from the PPP loan may be used on qualified expenses. Recent changes to the program have extended the program end date of the “Loan Forgiveness Covered Period” from June 30, 2020 to Dec. 31, 2020. Borrowers may use 24 weeks from their date of funding to determine their covered period (not to exceed Dec. 31, 2020), but if loan proceeds were received before June 5, 2020, borrowers may choose to use 8 weeks instead.

Do I have to maintain the number of employees for the entire Loan Forgiveness Covered Period to have my loan forgiven?

It is recommended you check the SBA guidance in this regard.

If I received an Economic Injury Disaster Loan (EIDL) will it impact how much of my PPP loan can be forgiven?

If the EIDL was not used for payroll, it may have no impact on the amount of forgiveness you might receive for your PPP loan. MB&T will not know the impact an EIDL may have on your PPP forgiveness until we receive payment from the SBA. Note, you cannot use EIDL funds and PPP funds for the same purpose. If however,

What documents will I need to submit when I apply for forgiveness?

As the borrower, you are responsible for tracking all expenditures beginning the date your loan was funded. The documentation requirements vary by SBA Form type. We strongly recommend you meet

with your financial advisor and gather any necessary documentation as defined by the SBA Form you opt to use. There are currently three versions of the application form: Forms 3508 (standard), 3508EZ (> \$150,000 and no changes to your business) and 3508S (loans ≤ \$150,000). Forms can be found [here](#).

Which loan forgiveness application should sole proprietors, independent contractors, or self-employed individuals with no employees complete?

In these cases, assuming no employee salaries were included in the computation of average monthly payroll in the Borrower Application Form, Form 3508EZ may be used.

The PPP Loan Forgiveness Application Forms display an expiration date of 10-31-20. Is this the deadline to apply for forgiveness?

No. Borrowers may submit a loan forgiveness application any time before the maturity date of the loan, which is either 2 or 5 years from loan origination. However, if a borrower does not apply for forgiveness within 10 months after the last day of the borrower's loan forgiveness covered period, loan payments are no longer deferred and the borrower must begin making payments.

The expiration date shown on the applications reflects the temporary expiration date for approved use of the forms as required by the Paperwork Reduction Act, and will either be extended or replaced by new forms with a new expiration date. These forms are updated often, so it is best to check the SBA website for updated forms.

What is the loan term for any amounts that are not forgiven?

Recent changes provide a five-year maturity for loans made on or after June 5, 2020, and provide lenders with an option for loans made prior to that date to extend the loan maturity from two years to five years at the mutual agreement of the borrower and lender.

If I do not apply for forgiveness, when should I start making payments?

Payments of principal and interest will begin at the end of the payment deferral period; 10 months after the end of the Loan Forgiveness Covered Period.

Can I get PPP expenses forgiven and deduct them from my taxes?

The Consolidated Appropriations Act of 2021 provides for the full deductibility of both ordinary and necessary business expenses that were paid with a forgiven or forgivable PPP loan. Please consult your CPA or other tax advisor for advice.

My bills are due outside the 24-week covered period. Can I claim these expenses?

Yes, as long as you pay it on the next regular billing date, any of those eligible non-payroll expenses (utilities, rent, mortgage interest) can be claimed for forgiveness, prorated to the end of the covered period.

How long do I need to keep my documents?

You must retain your supporting documents for six years after the loan is fully forgiven or fully repaid, and provide them to the SBA or the Office of Inspector General if requested.

I'm self-employed, with no employees, what can I use instead of payroll?

Your PPP loan was based on 2019 net profit, not 2019 payroll records, so you do not need to spend 60% of the loan on payroll. Instead, eight weeks' worth of your 2019 net profit can be used for payroll if your loan was received prior to June 5, 2020, with the remainder of the funds used for allowable non-payroll expenses. If your loan was received after June 5, 2.5 months of your 2019 net profit can be used, which will be your full loan amount.

I also received an EIDL Grant, do I have to give that back?

No.

What if I have a PPP Loan and I want to sell my business?

The SBA does not recommend that you sell your business until the loan has either been forgiven, or the loan is paid in full. If you want to sell your business before the loan is paid or forgiven, it may have to be assumed by the buyer, and there is a procedure to do so, but it may delay the sale of the business as the SBA has to approve the sale and loan assumption.

The SBA has also issued guidance that makes it possible to proceed with the sale of the business if a complete forgiveness application has been submitted, and an interest bearing escrow account controlled by the lender is set up with the full amount of the PPP Loan.

If you plan to sell your business, please contact us as soon as possible.

Is there an additional questionnaire for loans over \$2 Million?

As part of its review of PPP loans totaling \$2 million or more, the SBA announced on October 28th, that they will begin sending "Loan Necessity Questionnaires" that will inform the SBA's evaluation of borrowers' good-faith certification of their economic need. SBA has developed two versions of the questionnaire—one for non-profit borrowers and one for for-profit borrowers. It is expected that the questionnaires will be sent to lenders with a request that borrowers complete the questionnaires.

Are these the final rules for forgiveness?

The SBA and the U.S. Treasury have made numerous revisions to the program and it would not be surprising to see additional revisions to the Interim Final Rules regarding PPP loan forgiveness and loan review procedures. Please stay tuned for more information!