

Paycheck Protection Program Loan – Potentially Forgivable for Housing Co-ops and Condos

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The CARES Act provides federal support to small businesses and employees affected by the COVID-19 pandemic. One of the important provisions of the Act is the Paycheck Protection Program (PPP) which contains a potentially forgivable loan to businesses provided that they meet certain criteria as discussed in this newsletter.

Who Qualifies?

The Act authorizes SBA loans (via banks or participating lenders, not directly through SBA) to a qualifying small business. Generally, a qualifying small business has no more than 500 full and part-time employees. Small business qualification applies to for-profit entities, sole proprietorships, and businesses with multiple locations provided each location does not exceed the 500-employee limit.

Eligible companies must have been in operation on February 15, 2020 and must have had, as of that date, employees for whom the entity paid salaries and payroll taxes. Additionally, when applying for a PPP loan, the borrower must certify that the uncertainty of current economic conditions makes the loan necessary to support the ongoing operations of the eligible recipient. Further, borrower acknowledges that the funds will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and/or utility payments.

How Much Can Be Borrowed?

The loan amount is the **LESSER** of: (1) \$10,000,000; or (2) 2.5 times the average monthly payroll over a one-year period prior to disbursement of the loan. Payroll costs are capped at \$100,000 on an annualized basis for each employee.

What is the Money Intended to Cover?

- "Payroll costs" during the covered period of February 15, 2020 through June 30, 2020 that do not exceed \$100,000 annualized (per employee);
- Group health care insurance premiums and benefits during periods of paid sick, medical, or family leave;
- Salaries, commissions or similar compensation;
- Payments of interest on mortgages (but not payments of principal);
- Rent;
- Utilities; and
- Interest on any other debt obligations incurred before the covered period

What Are the Loan Terms?

Loans are for a **maximum two-year term** at an **interest rate of one-half (.5%) percent**. The first payment will be **deferred for six (6) months after loan issuance**. All loan application fees, personal guarantees, collateral requirements, and credit status will be waived for any covered loan.

What Are the Loan Forgiveness Provisions?

The PPP loan can be forgiven if the proceeds from the PPP loan are used to pay:

- Payroll costs
- Interest and certain mortgage obligations
- Rent and utilities

The PPP loan amount that can be forgiven is based on the ratio of:

$$\frac{\text{Average Number of FTEs per month from the loan date to June 30, 2020}}{\text{Average Number of FTEs per month from February 15, 2019 to June 30, 2019}^*}$$

* A borrower can alternatively choose to use the period January 1, 2020 to February 29, 2020

The PPP loan amount that can be forgiven is reduced by any wage reductions in excess of 25% per employee, and the temporary reduction in head count made between February 15, 2020 and April 26, 2020 will not reduce forgiveness if corrected by June 30, 2020.

An entity must apply for forgiveness of the PPP loan to its PPP lender. In this application, the entity must include:

- Documentation verifying the number of employees on payroll and pay rates, including IRS payroll tax filings and state income, payroll and unemployment insurance filings.
- Documentation verifying payments on covered mortgage obligations, lease obligations, and utilities.
- Certification from a representative of the entity who is authorized to certify that the documentation provided is true and that the amount that is being forgiven was used in accordance with the PPP's guidelines for use.

Any loan amounts not forgiven at the end of one year are carried forward as an ongoing loan. Principal and interest will continue to be deferred, for a total of 6 months to a year after disbursement of the PPP loan.

Are Housing Co-ops/Condos Eligible for the PPP loan?

The definition of a qualifying business is subject to interpretation, and we believe it is possible that such loans may be available to cooperative housing corporations and condominium associations. Cooperative and condominium Boards should also be speaking and coordinating with their managing agents with regard to gathering and assembling the pertinent information needed to be submitted as part of the loan application process if it decides to pursue these types of loans.

What's the Next Step?

Given that the PPP loans are arranged through banks and other participating lenders, it would be an appropriate time to start reaching out to your current bankers and make applicable inquiries of them as to how they may interpret the provisions of the PPP so as to be in the best actionable position to proceed as quickly as possible. The application process for these loans will be made through the chosen lender and, as such, cooperative housing corporations and condominium associations should work closely with their managing agents to ensure that the applicable information needed for the loan submission process is readily available if and when it decides to apply for this PPP loan.

Contact Us

We invite you to visit our [COVID-19 Resource Center](#) for information on various business matters related to the pandemic.

If you have any questions on the topics discussed in this bulletin as they pertain to the housing cooperatives and condominiums industry, please do not hesitate to reach out to any of the below. We are here to help.

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