

# The Top 3 PPP Forgiveness Mistakes

*(The best advice you'll receive at any price, and this is free!)*

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With each passing day, more and more Paycheck Protection Program (PPP) borrowers are focusing on loan forgiveness. Since the program first launched, we have worked with hundreds of borrowers, initially on the loan application process, and then since early June, on loan forgiveness. In the process, we have seen more mistakes than we have clients. Some of the errors involve computations and applicability of the rules. But the most common mistakes are substantial, overarching ones that are likely to have a significant impact on forgiveness. Here are the top three mistakes we've seen along with recommended solutions.

## Mistake #1: Rushing to File a Loan Forgiveness Application

Many borrowers are rushing to complete and submit their PPP loan forgiveness applications. This is like going all in on a seven-card poker hand when you've been dealt only two cards. There is still so much that we don't know. Why rush?

We understand that people are anxious. And there may be some – very few – legitimate reasons for wanting to submit the application sooner rather than later. But generally speaking, we think rushing is a big mistake. You have 24 weeks, plus 10 months, from the date you received your loan to submit your forgiveness application. Even if you believe you've incurred enough expenses to achieve full forgiveness, what's wrong with waiting and including even more eligible expenses? (Answer: Nothing!) We're not suggesting you wait until the last minute – it can take up to five months to process and approve a completed application – but waiting a while longer should pay off; or at the very least, not hurt.

Most banks have not yet started accepting loan forgiveness applications because of the lack of definitive guidance on a number of issues. Even when banks begin accepting applications, however, you probably don't want to be one of the first through the door. More time may equal more clarity on key issues and offer the benefit of hindsight in evaluating filing positions and strategies.

This doesn't mean you should wait to begin preparing for loan forgiveness. The requirements are complex and the documentation is voluminous; so make sure you have a system in place to capture the information and collect the documentation you will need. Perform your base period full-time equivalent employee (FTE) calculations. Also, prepare a projected, or working draft, application so you understand where you stand with forgiveness eligibility and can identify issues that might affect approval. With this information in hand, you can work on strategies to maximize loan forgiveness while waiting for clarity on issues yet to be resolved.

## Mistake #2: Going It Alone

We speak with many borrowers who are planning to complete and submit their PPP forgiveness applications on their own. While we understand their desire to save money and understand that this may sound self-serving, we believe this is a mistake. The PPP rules are complex, nuanced and continuously evolving. We have a team of people working with hundreds of PPP borrowers and following the regulatory developments full-time. Based on our discussions with clients and the preliminary applications we have seen, the rate of error or misunderstanding is nearly 100 percent. Almost nobody is getting it all right.

Just last week we were performing a cursory review of a client's pro forma forgiveness application on a PPP loan of more than \$5 million for which the borrower calculated an anticipated forgiveness amount of approximately \$3.5 million. The client was reluctant to retain our services. In a 20-minute discussion, we identified another \$500,000 of potentially eligible expenses. They may not all pan out, and it doesn't

always go in that direction. But keep in mind that borrowers have one chance to get this right. Currently, there are no provisions for submitting amended or corrected forgiveness applications.

If the SBA finds a problem with your application and disallows some or all of your loan forgiveness, you won't be able to simply argue an alternative position or extend the period you used in determining forgivable expenses. Chances are, you'll need to hire an attorney and go through an administrative hearing process to make any changes or corrections. Even if you're sure you have it 100 percent right, think of hiring a professional to assist with your PPP forgiveness the same way you think about insurance: you hope you won't need it, but having it gives you peace of mind when there is potentially so much at stake.

**Mistake #3: Managing Forgiveness Rather Than Your Business**

From the very beginning, we have advised clients and others to do what's right for their business first and then maximize forgiveness within that framework. This advice has not changed. But we still see many borrowers focusing on maximizing forgiveness and losing sight of what is best for the business. The top concern we hear about is from people reluctant to right-size their workforce for fear of impacting forgiveness. With 24 weeks to spend the PPP funds, it takes a very significant reduction in your workforce to jeopardize forgiveness. Consider the following two tables.

**Table A.** This table shows how a reduction in workforce is likely to impact PPP loan forgiveness assuming the reduction takes place on or before the borrower received the loan funds. Further assumptions include that reductions in head count and payroll expense occur in the same ratio, no safe harbors apply and only payroll expenses are considered.

Reduction in Force/Expenses	0.0%	10.0%	20.0%	30.0%	32.8%	40.0%
Expenses eligible for forgiveness as a percent of the loan amount	222%	179%	142%	109%	<b>100%</b>	80%

The table above illustrates that a borrower can reduce the organization's workforce by almost one-third, from Day 1, and still achieve full forgiveness over 24 weeks. Assuming the borrower has eligible expenses in addition to payroll, the reduction in force can likely be even greater than one-third before reducing forgiveness below the amount of the loan.

**Table B.** The table below shows how a reduction in workforce is likely to impact PPP loan forgiveness assuming the reduction takes place eight weeks after the borrower received the loan funds. Additional assumptions are the same as those in Table A, above.

Reduction in Force/Expenses	0.0%	15.0%	30.0%	45.0%	49.2%	60.0%
Expenses eligible for forgiveness as a percent of the loan amount	222%	179%	142%	109%	<b>100%</b>	80%

This table illustrates that if the reduction in workforce is delayed until Week Nine, a borrower can cut nearly one-half the organization's workforce without negatively impacting forgiveness. And again, if there are eligible non-payroll expenses, the workforce reduction could be even greater before forgiveness is impacted negatively.

We have also found that many borrowers don't understand that PPP forgiveness is, at best, a cost reimbursement grant. Loan forgiveness will be granted only if the funds are expended on eligible costs. If a borrower's FTE ratio is less than 100%, incremental forgiveness will be less than the incremental costs incurred. So incurring costs solely to increase forgiveness makes little sense from a strategy perspective.

**Bonus: One Last Piece of Advice**

It is widely expected that loans below a certain dollar threshold (\$150,000 is the figure that has been bandied about) will undergo a highly expedited forgiveness process; a virtual free pass to loan forgiveness. Capitol Hill is unpredictable, and the PPP has taken many surprise twists and turns, but if a borrower has a

loan of less than \$150,000 (including all affiliated entities), it really makes sense to wait awhile longer to see what lies ahead.

### **In Summary**

The Paycheck Protection Program, with all its complexities, has been in a state of disarray since it was introduced in early April. It has been more than four months and still, much of the guidance is ambiguous, and some is still completely non-existent. For most borrowers, PPP loan forgiveness represents a very significant transaction; perhaps even a lifeline to survival. Don't make mistakes that can make a difficult situation even worse. Slow down, get some help, and "mind your business."

**Disclaimer:** The above advice is general in nature and may not apply to you or your situation. Please seek professional advice before applying any of the recommendations or strategies described above.

### **Contact Us**

For help with your PPP loan, please reach out to your PKF O'Connor Davies team members, or email us at [LoanForgiveness@pkfod.com](mailto:LoanForgiveness@pkfod.com). We are here to help.

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