

## PPP Loans Are Coming Due – Here's What You Need to Know

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Recipients of PPP loans have 10 months from the end of their 24-week covered period to apply for loan forgiveness before payments start coming due. For most loan recipients, that “due date” is right around the corner. Many loan recipients have already received notices from the bank, reminding them of their scheduled payments. The banks are very anxious to have these loans forgiven so that they can remove them from their balance sheets to free up lending capacity and loan money under their normal borrowing programs that are more profitable. Consequently, the banks don't necessarily present all of the options available to loan recipients. That's where we come in. Here's what you need to know about applying for loan forgiveness and the option of extending the term of your loan.

### You Can Still Apply for Forgiveness Even After You Start Making Loan Payments

Although this is not the ideal situation to be in, borrowers have the ability to apply for forgiveness up until the date that the loan is paid in full. If the loan is ultimately forgiven, the borrower will be reimbursed any interest and principal payments made to date and the balance will be forgiven. This presents a bit of a cash flow issue, but the end result is the same – full forgiveness.

### You Have the Ability to Negotiate With Your Banks to Convert a Two-Year Loan to a Five-Year Loan

The earliest PPP loans were structured over a two-year period, with a 1% interest rate. Recipients didn't have to start making loan payments until 10 months after the end of a 24-week covered period. For example, if you received a PPP loan on May 1, 2020, your 24-week covered period would bring you to October 15, 2020. 10 months from there would bring you to August 15, 2021. That's around the time when the banks are going to start to look for repayment. However, it's important to note that when these repayment notices are received, the banks are only spreading your loan payments over approximately eight months! If you do the math, the loan was for a two-year period. By the time you reach the deadline to start applying for forgiveness, you only have approximately eight months left before you reach the end of that two-year period. Consequently, those loan repayment invoices are going to be relatively high.

On June 5, 2020, the PPP Flexibility Act was signed into law. As part of that Act, any PPP loans made after June 5, 2020 carried a term of five years. While the law didn't retroactively change the terms of the loans made prior to that date, it did provide the flexibility for borrowers to negotiate with lenders and mutually agree to extend the terms to five years. If you are up against your loan repayment deadline, you may want to consider extending the terms of your loan, to minimize the amount of principal and interest you would have to pay until your loan is ultimately forgiven. It's a way to help preserve cash flow. Instead of the balance due being divided into payments over eight months, the payments would be spread over 44 months. This extension can reduce cash needed until the loan forgiveness application can be approved.

### Summing It All Up

It's true – if you haven't applied for PPP loan forgiveness on your first draw PPP loans or if you need to convert the PPP loan term, the time to act is now. Be aware of your options. Don't be misled by scare tactics or bad information.

### Contact Us

If you have questions or require assistance, please reach out to your PKF O'Connor Davies client service team or email [LoanForgiveness@pkfod.com](mailto:LoanForgiveness@pkfod.com).

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