Welcome

Purpose

Congratulations, you have successfully concluded your CARES Act Paycheck Protection Program ("PPP") loan application and will soon be funded under the program. The PPP is a two part process: 1) Funding the requested loan amount, and; 2) Applying for loan forgiveness by the SBA. As part of PPP, you may be eligible for complete or partial forgiveness depending on your company’s circumstances and activities as you go forward - starting after you execute this promissory note. We want to prepare you for the information that will be needed when applying for forgiveness in the coming months*.

Process

When the time comes to seek loan forgiveness, you will work with Heritage Bank to complete the process, rather than making application directly to the SBA. It will be your responsibility to accurately calculate the potential forgiveness amount and supply us with your calculation and relevant supporting documents such as payroll records, payroll tax records and receipts for non-payroll costs. It will be our role to make a good-faith review of the your calculations using the supporting documents. Please understand that the calculation you made to apply for the PPP loan is different in several key aspects from the calculation used for loan forgiveness.

Forgiveness Basics

The amount of loan forgiveness is your eligible payroll and related compensation expenses over an eight week period. Forgiveness can include money spent on business rent, mortgage interest and utility costs over the same period. The forgivable amount will be proportionally reduced if your company cuts full-time equivalent employees ("FTE") by more than 25% or reduces compensation, both compared to pre-COVID19 levels (note: If you will be re-hiring employees or restoring cut wages before June 30th, special rules on how to measure this proportional reduction may apply). Finally, the amount available to fund non-payroll expenses will be capped at no more than 25% of the total amount forgiven.

Loan Forgiveness Time Frame

The forgiven amount will be based on actual paid expenses during an eight-week time frame starting when your PPP loan is funded.

Loan Forgiveness Recordkeeping

For the eight-week period, please retain detailed payroll records, and be prepared to submit them along with your forgiveness calculation. It may be helpful to keep a spreadsheet or similar record - organized by week - for compensation expenses paid through payroll. In addition, please keep track of payments made for the 8-week period for related eligible expenses paid outside of payroll, such as the company-paid portion of health care insurance and 401k match contributions. Finally, be prepared to provide receipts or statements evidencing rent, mortgage interest and utilities.

Please see the next page for lists of forgivable compensation and facilities expenses.

*Please note that the information presented here is subject to any changes by the SBA as they make final interpretations and provide additional guidance between now and the time of actual loan forgiveness.
Validating FTE
Since PPP is designed to promote retention and re-hiring of employees, you will need to provide us with additional documentation verifying the number of FTE on Borrower’s payroll once PPP is in place compared to (divided by) average FTE during an eight-week period measured at either of the two time frames:

- Average monthly FTE for 2/15/19 to 6/30/19, or;
- Average monthly FTE for 1/1/20 to 2/29/20.
- Note: Special rules may apply for highly seasonal businesses.

Forgivable Expenses
Refer to a Simple PPP calculator on HeritageBankNW.com for an example of the forgiveness calculation.

Eligible Facilities Expenses
- Commercial rent and/or commercial mortgage interest
- Utility costs

Eligible Compensation Expenses
Forgivable payroll expenses include:

- Salary and wages
- Commissions or similar
- Cash tips, allocated tips
- Vacation, parental and family leave, sick leave or PTO
- Allowance for separation or dismissal

All of the above are typically paid through payroll processes. Additional eligible payroll costs include those most commonly paid outside of payroll:

- Company paid group health care coverage, including insurance premiums
- Company-paid retirement contributions, such as a 401k match
- Company-paid portion of state and local taxes assessed on compensation of employees

Excluded Payroll Costs
PPP expressly excludes:

- Compensation of an employee whose residence is outside the US
- The portion of compensation of any employee beyond $100,000 per year
- Qualified sick and family leave wages for which there is a credit under the Families First Coronavirus Response Act

We look forward to helping you in the weeks to come, and expect that further guidance about PPP loan forgiveness will be provided by the SBA during that time. You can look forward to updated guidance and calculation approaches as we learn the details. In the meantime, SBA also has resources for you: