
# Credit Risk Ready Podcast

## Host Linda Keith, CPA, With Paula King, CPA

## *The PPP Mad Dash Continues: Forgiveness FAQS*

Hi, this is Linda Keith, CPA, with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

In this episode, Paula King will bring us up to date on the ever-changing PPP loan forgiveness landscape with practical ideas on how to manage the process. Paula King, CPA, is senior advisor for Abrigo Advisory Services and is the point person on creating their PPP loan forgiveness advisory services for hundreds of their bank and credit union clients. She advises on CECL and other credit processes, policies, and procedures. Her banking career spans 25 years and includes co-founding a bank as well as positions including Chief Financial Officer and Chief Risk and Compliance Officer.

Hey, Paula, thank you so much for joining us.

**Paula King:**

Thank you, Linda. Great to be here. I appreciate you having me and I think we've got some very relevant and timely topics to discuss.

**Linda Keith:**

We sure do and in banking today we have lots of relevant and timely topics. Let me just set the stage: as we speak today, July 10th, the United States is about one month into opening after the COVID-19 shutdown. It is experiencing a surge in COVID-19 hospitalizations throughout the south and west. Some states are considering backtracking on their opening and, in the midst of all of this, the PPP Paycheck Protection Program is still a moving target, isn't it?

**Paula King:**

Moving target is a great description, Linda. We get changes daily, weekly, from the SBA and it is very frustrating for a lot of our financial institutions who actually have borrowers who are wanting to start that forgiveness process now and, with all the changes, it's hard for them to get going on that component of the forgiveness.

**Linda Keith:**

Well and, sure, what's the most recent change? Was it yesterday? Today?

**Paula King:**

Exactly. It seems like it was yesterday for sure. We had a lot of changes on June the 5th as a result of the Flexibility Act that was passed by Congress and there was an interim final rule that was issued as a result of that. But now we've got a couple of proposals within the Senate that could change things very drastically at this point.

**Linda Keith:**

And yet it's time to start doing things, right?

**Paula King:**

It is, it is. Like I said, we've got financial institutions whose borrowers want to go ahead and apply for forgiveness, but they've really held off given some of these proposals that are in the Senate at this point.

**Linda Keith:**

It reminds me in public accounting, often the Congress will pass a tax law in, say, November, that is applicable in January. The IRS hasn't even figured it out yet, and yet the CPAs are trying to advise their clients about what to do next. It sounds like you're in the same boat here.

**Paula King:**

We are, Linda. And I tell you, it's a very complex process for the average small business owner, so I think it's really imperative that they use some folks to help them out with it. It's even hard as the CPA sometimes for me to look at some of these schedules and figure them out.

**Linda Keith:**

Exactly.

**Paula King:**

Very challenging.

**Linda Keith:**

One of those things where you have to read it, and then you read it again, and then you try reading it out loud.

**Paula King:**

Exactly.

**Linda Keith:**

So it makes better sense. Well, before we jump into the forgiveness process, which I know is key in our focus on this episode, I want to ask a question sort of before the question. How is the way banks are qualifying applicants for the PPP program today different than the mad rush in the beginning? Because they've just extended again. The PPP program is still in play. Someone still could come in the door and apply. So how are we doing a better job than we did? Or are we pretty much still doing the same thing?

**Paula King:**

Yeah, I think we'll do a better job as we move forward. So if you looked at the initial IFR that came out by the SBA, it was very confusing as to actually who is eligible for a PPP loan. And I think, unfortunately, we may have some issues with eligibility, even once we get past the forgiveness process. And at this point, the SBA has the right to review any application. And one of the things they honed in on, on the latest release, was that they would review eligibility.

**Linda Keith:**

Oh my.

**Paula King:**

Yeah. So unfortunately I think we may have some rejections due to that initial confusion on eligibility, but anything you do and the more you do it, the more accurate you get. So I think most of the institutions I've had conversations with recently feel much more comfortable at this point ensuring appropriate eligibility.

**Linda Keith:**

Well, I interviewed Laurie Stewart, who is President of Sound Community Bank, and also Chair of the American Bankers Association. And she basically said, "We had two weeks to decide, “Are we jumping in or not?”"

**Paula King:**

That's right.

**Linda Keith:**

Completely inadequate amount of time, but you had to decide: are you going to try to back your borrowers or not? Basically, and are you going to take way more risks than you normally would because it's a program you don't quite understand and the SBA hasn't told you everything you need to know yet? So every bank that did them early on certainly was really in the same boat of guessing in some ways what exactly that eligibility requirement was going to be.

**Paula King:**

I would agree and I think they're having that same issue with the forgiveness piece as well because, like I said, a lot of changes are being made daily, weekly, so you just have to go with your best guess in some of this as to your interpretation of what the SBA's guidance says.

**Linda Keith:**

Right. Well, and I work mostly in loan origination and something I do in loan origination for tax return analysis and credit analysis really plays in here, and that is document what you are thinking.

**Paula King:**

Right.

**Linda Keith:**

Because if you base it on your understanding of forgiveness and maybe in a month there's better guidance, by the time the SBA takes a good look at what you did, they may not remember that back when you did that, you didn't have the guidance you have now.

**Paula King:**

Exactly.

**Linda Keith:**

So I think it's going to be very critical.

**Paula King:**

It is and that's what we're emphasizing. We've had some questions proposed to us from our institutions, our clients, and we don't know the answer at this point. And so my response is typically, "Document why you did what you did and that's your evidence and that's all you really had to work with at the time until further guidance comes out."

**Linda Keith:**

Yeah. It's a little scary for bankers to simply trust the regulators that they will be reasonable later, because sometimes that hasn't felt like it happened. But it feels to me like in this particular environment the regulators have a better understanding of how flexible they're going to need to be when it comes down to really reviewing things that were done in haste with the full knowledge at the time that nobody actually had the best information.

**Paula King:**

I would agree. And we always try to keep in mind the purpose of this, so it was an emergency situation and the banks wanted to be compliant. They wanted to show some of that goodwill toward the community. So, I'm hopeful that the SBA and the regulators will be flexible and adapting into some of the decisions that were made early on by the financial institutions.

**Linda Keith:**

Well, I'll tell you, I didn't read it word-for-word, I have to admit, but I definitely scanned your seven-page PPP applicant forgiveness process FAQs document. And we have linked that in the show notes to this podcast, so everyone listening will be able to access the detail that is there. Seven pages long, very thorough, recommend it highly. And since we know that listeners might join us weeks and even months later, Paula, how much of that might still change, and what's a good place to continue to go for the updates on the guidance?

**Paula King:**

Sure. Well, we at Abrigo have a resource page: abrigo.com. There's a page specifically dedicated to the PPP program. Not only the eligibility requirements, but also the forgiveness requirements and we are updating that page as we get guidance from the SBA, so definitely a good source. There's also a lot of articles out there from some of the accounting firms that I've actually enjoyed reading and have learned from as well. So certainly there's a lot of information. Just be careful who that information comes from, obviously. I have seen some things out on the internet that are totally inaccurate, so use reliable sources. I can't emphasize that enough.

**Linda Keith:**

Well, and I can speak highly of Abrigo as one of the most reliable sources I have for this kind of information. We'll definitely put the links, Paula, to that in the show notes as well. So, I encourage listeners to click through on the Abrigo link to that PPP page for the very latest information. So since it's seven pages long, would you just pick out a few of the most common questions or areas of confusion that you're seeing and give us some ideas of how to cope with those?

**Paula King:**

Absolutely. So one of the things that came out in the new IFR, and this actually wasn't even in the bill that was passed, so it was buried really within that IFR, is that you will be able to apply for forgiveness up until the maturity date of your loan.

You've probably heard of the eight-week period, and then the most recent went from an eight weeks to a 24-weeks covered period. But, you can actually use any period. So let's say, for example, you're a borrower and you utilized all of your loan proceeds within the 16-week period, so you can actually go ahead and apply for forgiveness at 16 weeks. So where we had a really fine-tuned covered period of either eight or 24 weeks, now it's wide open. So, you can apply as soon as you use all of your loan proceeds.

**Linda Keith:**

Ah, I don't know all the details of this. I'm going to ask you some rookie questions here, Paula. So if I wasn't within the eight weeks, officially 24 weeks is currently the longest period. Is that right?

**Paula King:**

That is correct for your covered period. But now you can apply as far out as up to the maturity date of your loan, but 24 weeks is the longest covered period that you can use. Absolutely.

**Linda Keith:**

And so if at 16 weeks I meet the criteria, then at that point I can initiate the forgiveness request as a borrower?

**Paula King:**

Yeah, and that's interesting, because whereas before we had some very distinct time frames in which financial institution borrowers could apply, now there's really no way of knowing when a borrower will apply. So, hopefully given the fact that we can apply at any point, the applications will be spread out, but you could have some pockets obviously of folks that apply all at the same time. Right?

**Linda Keith:**

Yeah. So planning workforce/workflow might be actually a little more difficult at this point.

**Paula King:**

It could be, because it was much more defined in the early days of the guidance.

**Linda Keith:**

Right. Okay, so that's a difference. What else is something that people might not be quite aware of that could help them?

**Paula King:**

Well, one of the good things is that the new IFR has also included an SBA form 3508EZ. So think about the old 1040EZ form that we might've filed when we were teenagers. There's an EZ form and there's three criteria for that, and certainly if you fit into this criteria, it would be much better for you to fill this out. It's a one-page document, as opposed to six or seven pages, but if you're self-employed and have no employees working for you, you're eligible for the EZ form. If you didn't reduce your salaries or wages by more than 25% during that covered period, or if you experienced reductions in business activity due to some of the mandates about COVID-19, you can look at the EZ form, and I think that will help you because the longer form is certainly much more involved.

**Linda Keith:**

Right, right. Well, let me give you a case study and see what you can do with this one. What about a business that hasn't yet actually had a setback, but we don't know how long this is going to go, right?

**Paula King:**

Right.

**Linda Keith:**

So maybe they've maintained their revenue. They’ve even been able to keep all their staff, and they can do that for, I don't know, months and months, six months they project or more, but they don't know the future. Can they apply for a PPP loan when they can't say that they've been harmed yet? Isn't there some part of it where you have to sort of assert that your business has been harmed by the pandemic?

**Paula King:**

Right, so it's very subjective. So there's probably something in that example you gave me where they have had some issues associated with COVID. There's probably very few businesses that haven't been touched in some way by it.

**Linda Keith:**

Right.

**Paula King:**

So there's no firm decisions that have to be made as it relates to, “How have you been harmed?” It's really more about the size of the business and whether or not you fit into the parameters. Because part of the PPP was it came out fairly early, where in fact you probably had some of those businesses that had not seen a lot of ramifications yet from the pandemic. So they were able to get the loans and then, unfortunately, have experienced some of those ramifications and so the PPP has come in very handy for them.

**Linda Keith:**

Right. Well, and as we speak, it's extended until when? End of August?

**Paula King:**

Extended to August the 8th.

**Linda Keith:**

Oh, okay, August 8th.

**Paula King:**

It was June the 30th.

**Linda Keith:**

Right.

**Paula King:**

So they're giving us about a little over an extra month.

**Linda Keith:**

All right.

**Paula King:**

And we've had some institutions that have said the interest has sort of waned at this point, but I think now that they've extended it there may be some additional that flows in, but I believe we've got about $130,000,000,000 left.

**Linda Keith:**

Exactly.

**Paula King:**

Yeah, so there's plenty of money out there and it's a very good program for those folks that need it. I think where the difficulty is going to be is in the forgiveness process, as far as how much of that is used for payroll and those other eligible expenses so that you'll be able to get as much forgiveness as possible.

**Linda Keith:**

And is that something that you would expect the banker to really walk their clients through? Or is there going to be sort of the lender liability issue of, "You don't want to tell them too much cause you don't want to be responsible for them doing it wrong." How is that going to work?

**Paula King:**

Yeah. That's sort of what we're encouraging our clients who are financial institutions. We don't want to give too much advice. We had a client yesterday that said a borrower wanted advice on the period to use. And my response to that was, and to your point, Linda, earlier, let's say they're bumping along right now and doing fairly well. Well, it may turn. And so if they wait the longer period of 24 weeks, that may not be beneficial. On the surface, it seems the longer you wait the better, but you have to be thinking about things like that, and to the extent the lender doesn't have all of the information that they would need to make an educated decision. We're putting forward the facts, some of these FAQs that you've seen, but really relying upon the borrower to make that decision.

**Linda Keith:**

So our listeners might want to, again, pop back to the Abrigo FAQ so that instead of giving the opinion, they could say, "Here's some information that will help you make that decision."

**Paula King:**

Exactly.

**Linda Keith:**

And that way they're out of the liability issue because it is complicated. It's like I always tell the folks I teach tax return analysis and I'm always telling my loan originators, "Do not give tax advice."

**Paula King:**

Exactly. Same concept for sure.

**Linda Keith:**

You can't do that. All right, we have time for one more illumination on the forgiveness process. Just give us another one that's something that people might not have been thinking about that they need to get teed up.

**Paula King:**

And there's so many, it's hard to pick one.

**Linda Keith:**

I know.

**Paula King:**

But I'll go with the basics, because that has changed. So in order to be eligible for full forgiveness, you must use at least 60% of your loan proceeds for payroll. It had been 75%, so they did reduce that, which is helpful. And then up to 40% for those other non-payroll eligible expenses, and that could be mortgage/rent, mortgage interest, and utilities. And one interesting thing on the mortgage/rent and the mortgage interest, because to me mortgage means real property, but it does include interest and rent. Not only on real property, but personal property as well.

**Linda Keith:**

The car leases?

**Paula King:**

Yeah, as long as it's used in the business. So that's been helpful for some of our clients to know. It wasn't very clear on the front end, but the SBA has confirmed that it will be included for personal property as well.

**Linda Keith:**

So, of course, if you had a car loan, the interest would have been okay too, correct?

**Paula King:**

Exactly, or lease.

**Linda Keith:**

But not the principle

**Paula King:**

Not the principle.

**Linda Keith:**

So you're better off if you've been leasing the car than if you had bought it?

**Paula King:**

You would have more forgiveness, for sure.

**Linda Keith:**

So, let me give you another scenario. Let's say that my business, my corporation, rents a building that I personally own as a single-owner LLC. The rent counts, right?

**Paula King:**

It does.

**Linda Keith:**

And it doesn't matter that it's to a related entity?

**Paula King:**

Right. It does as long as you can show that you've paid or incurred it. And that's another caveat within this that's a little confusing to the average small business owner, is it's paid but it's also incurred. Now you want to make sure you don't double count those, but let's say you have, for example, a utility bill and a portion of your covered period was paid on the following month. Then you can include what you paid that related to that covered period. And the same thing for payroll. If you're a biweekly employer, for example, then you can count that last payroll that may have some of your covered period earnings within it.

**Linda Keith:**

I picked up on that one right away and got questions right away because I found immediately an eight-week time frame that would only have one payroll in it because it was monthly and it was like, "What in the world?" So I did have a blog post on PPP, and at one point I thought, "It's changing so fast, I shouldn't even have this here," except it really does show how complicated things are. So I went back on the blog post, put a big paragraph at the top that said, "This is currently not accurate, but you can see how things can get confused," or something, and sort of left the thinking up there…

**Paula King:**

That's very smart

**Linda Keith:**

... because at that time, I could think of four good ways to figure out payroll and all of them made sense and we didn't have enough guidance yet to know at that very moment.

**Paula King:**

Right. And one thing we've learned from some of the larger payroll providers is they will run special payroll runs for the borrowers.

**Linda Keith:**

Oh, fantastic.

**Paula King:**

So if we have any borrowers that use some of the more national, like an ADP or even some regional and local payroll firms, go to that payroll firm and tell them, "I need a run for my covered period that I'll be using for my forgiveness, and I also need a second run for my reference period." So that would be extremely helpful than to have to rummage through various payroll registers to make sure you're getting the to-from date correct.

**Linda Keith:**

Not only that, but I could see that if I could give that report to my lender, my lender would have more confidence in the numbers I'm using because somebody with some knowledge of this has come up with those numbers, not just me, the small business owner, trying to figure it out.

**Paula King:**

And that's an excellent point. The guidance says that the lender shall do a good-faith review, but then if you continue reading, there is a lot of onus on the lender. So it says, "You need to review all of the supporting documentation. You need to ensure that the amounts in each line item are correct." So the way I interpret that is, the lender really has to go through a pretty good review before they opine on what the actual forgiveness amount is.

**Linda Keith:**

And that's going to be time consuming.

**Paula King:**

It is. It is going to be very time consuming. We're actually doing some of that for our clients through our advisory services where we're helping them with validating that forgiveness calculation.

**Linda Keith:**

Sure.

**Paula King:**

Number one, they don't have the bandwidth. Number two, their lenders are worn out from the actual application process. And number three, in some instances, they don't have the knowledge base that they need to validate the calculation. So it's a really complex process.

**Linda Keith:**

It is. And I'm wondering, are the banks making enough money on this to make it worthwhile? I mean, sorry to be mercenary here, but it's like, "Really?" I mean, I know they're doing it to try to help their business borrowers, and I do know that we're all hands on deck and everybody in their sphere of influence is trying to add value just because it's what we should do for each other in a global pandemic. But I do wonder how the calculation will come out in terms of how much money it costs the banks instead of making it, although maybe they are making enough money to make it worthwhile.

**Paula King:**

Exactly. Well, they did get some good fee income and they will get the interest from the SBA. But one of the things I'll let you know that's been a recent development and has not been assigned at this point, but there is some legislation in the Senate that has been proposed. It hasn't gone to the bill phase yet, that is asking that anything under $150,000 be automatically forgiven. And the only thing the borrower would have to do if they have a loan of under $150,000 is to file the attestation form. So the certification that says basically, sort of like signing your tax return, you certify under penalty of perjury. So that certainly would alleviate a lot of some of our lenders’ requirements to review supporting documentation. So we have a lot of clients that are hopeful that that may move forward.

# Credit Risk Ready Podcast With Paula King, CPA
## *The PPP Mad Dash Continues: Forgiveness FAQs*

**Linda Keith:**

So if I haven't applied for a PPP loan yet, I now know what number to stay under.

**Paula King:**

There you go.

**Linda Keith:**

Paula, thank you so much for that. Well, I do want to wrap this episode up. I'm so thankful to you for bringing your knowledge and understanding what's going on and some real practical information, as well as the link to your site for the most recent updates, as well as the FAQs. It is complicated. It is a changing scene and I really thank you for being here.

**Paula King:**

Well, thank you. I've enjoyed it.

**Linda Keith:**

Thanks for joining us on the Credit Risk Ready podcast. Subscribe, comment, or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers, and our communities through the recession, safe and sound. Take care.

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### *About Paula King*

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Paula King, CPA, is Senior Advisor for Abrigo Advisory Services, part of a team of subject matter experts assisting financial institutions nationwide in the interpretation and application of Current Expected Credit Loss (CECL), credit processes, policies and procedures, and model validations.

Paula has held executive positions, including as Chief Financial Officer, in the banking industry for more than 25 years. As a former CFO, Paula has extensive experience in the design, preparation, and reporting of the allowance for loan and lease losses, including ensuring compliance with regulatory and audit requirements, and creating allowance policies, procedures, and processes. In addition, she has served on internal credit committees and worked with loan operations and lending staffs to improve credit processes and enhance the capabilities of a variety of core loan systems.

Prior to her banking career, she was associated with a regional public accounting firm and specialized in bank audit services.

Paula has been responsible for SEC and financial reporting, strategic planning, and has served as Chief Risk and Compliance Officer. She is a bank co-founder and served as a member of the board of directors through its merger with another financial institution and has been a de novo bank consultant to boards and senior management teams.

## *About Linda Keith*

Linda Keith, CPA, draws on her 30+ years of experience consulting with and training lending institutions, background in public accounting, 15+ years as CFO of the family residential construction company, experience as an Examiner with the Washington State Auditor's Office, and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say, “Yes,” to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a move afoot to change the 'P' in CPA to stand for 'Playful'. The fact is, people absorb ideas and learn better when they are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of Lenders Online Training, a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the Credit Risk Ready Podcast; and a consultant/trainer on credit risk to banks and credit unions across the country.

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