

CARES ACT PAYCHECK PROTECTION PROGRAM

Frequently Asked Questions As of Sept. 28, 2020

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OVERALL

What is the purpose of the Paycheck Protection Program in the CARES Act?

The recently enacted CARES Act establishes a new Paycheck Protection Program, a federally-guaranteed, low-interest loan program intended to help small businesses keep their employees working. Small businesses, non-profits and sole proprietorships may be eligible for low-interest loans with deferred payments and a maturity of two or five years.

What are the loan features?

- Streamlined application requirements that can be completed online.
- No Small Business Administration fees.
- Deferred payments.
- Borrowers are eligible for loan forgiveness equivalent to what is spent on eligible expenses during the covered period after the loan is originated.

For any amounts not forgiven, the term for a loan originated before June 5, 2020 will be two years, although the borrower and lender can agree to extend that term to five years. Any loans approved after June 5, 2020 will automatically be subject to a five year term.

The interest rate on PPP loans is 1% per annum. There are no loan fees or prepayment fees.

LOAN FORGIVENESS

How does PPP loan forgiveness work?

The overarching focus of the Paycheck Protection Program, a part of the CARES Act, is keeping workers paid and employed, so it prioritizes forgiveness for amounts that go to payroll costs. It also limits the amount of non-payroll costs that can be forgiven to 40 percent of the total amount forgiven. This is intended to ensure that the funds available for forgiveness are primarily directed toward payroll protection.

How is the forgiveness amount calculated?

Your PPP loan may be forgiven to the extent you use the proceeds for payroll costs, mortgage interest/rent, and utilities during the covered period after the loan is funded. To receive full forgiveness you will need to provide proper documentation as outlined in the application instructions provided by the SBA. Your forgiveness amount will also be subject to certain reductions if you do not maintain employee salaries or headcount. No more than 40% of the loan forgiveness amount can come from non-payroll costs.

What is the Covered Period for loan forgiveness?

The Covered Period begins on the date of loan disbursement and continues to the earlier of 24 weeks from the disbursement date, or until December 31, 2020. Borrowers whose loans were originated prior to June 5, 2020 may choose to use an 8 week Covered Period beginning on the date of loan disbursement.

For payroll costs only, borrowers with a bi-weekly (or more frequent) payroll cycle may elect to use an Alternative Covered Period. The Alternative Covered Period begins on the first day of the first payroll cycle following the borrower's loan disbursement date and lasts for 24 weeks, or until December 31, 2020. Borrowers whose loans were originated prior to June 5, 2020 may choose to use an 8 week Alternative Covered Period.

Can I choose to have my Covered Period be a timeframe other than 8 or 24 weeks?

No. The Covered Period is a 24-week period beginning on the date of your PPP loan disbursement. If your loan was disbursed before June 5, 2020, you may elect to use an 8-week covered period beginning on the date of loan disbursement. No other time period is permitted. However, your use of loan proceeds does not need to be spread out evenly throughout your covered period. For example, if using a 24-week Covered Period, you could use the entirety of your loan proceeds during the first 10 weeks and be eligible for full forgiveness assuming you used the proceeds for eligible expenses and can provide proper documentation.

What expenses are eligible for loan forgiveness?

Subject to the exclusions listed in the questions below, and assuming proper documentation is provided, payroll costs paid or incurred during the Covered or Alternative Covered Period are eligible for forgiveness. In addition, non-payroll costs paid or incurred during the Covered Period are also eligible for forgiveness.

At least 60% of your PPP loan must be used for payroll costs. This is a minimum threshold and spending on payroll costs up to 100% will be eligible for forgiveness. However, when applying for loan forgiveness no more than 40% of your loan proceeds can be attributable to non-payroll costs.

What specific components of payroll costs qualify for loan forgiveness?

- Cash compensation, subject to the limits described below, to U.S.-based employees (including furloughed employees):
 - Salary, wages, commissions or similar compensation, including owner compensation.
 - Cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips).
 - Bonuses and hazard pay.
 - For owner-employees, self-employed individuals, or general partners: wage, commissions, income, or net earnings from self-employment or similar compensation.
- Non-cash compensation to U.S.-based employees:
 - Payment for vacation, parental, family, medical, or sick leave.
 - Allowance for separation or dismissal.
 - Payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement.
 - Payments made by the borrower for employer state and local taxes assessed on compensation of employees; not including taxes withheld from employee compensation.

What specific components of non-payroll costs qualify for loan forgiveness?

- Interest on mortgage obligations, if the mortgage was originated before February 15, 2020.
 - Principal payments and prepayments are not eligible for forgiveness.

- Rent, under lease agreements in force before February 15, 2020.
- Payments for those utilities listed below, for which service began before February 15, 2020:
 - Electricity, gas, water, transportation, telephone, and internet access.

What expenses are not eligible for loan forgiveness?

- Compensation amounts that exceed the below limits:
 - Employee compensation at an annual salary rate over \$100,000 (for a 24-week covered period any amount over \$46,154 per individual, or for an 8-week covered period any amount over \$15,385 per individual will not be eligible for forgiveness).
 - Owner compensation (owner-employees, a self-employed individual, or general partners) above 8 weeks' worth of 2019 compensation (capped at \$15,385) for an 8-week covered period or above 2.5 months' worth of 2019 compensation (capped at \$20,833) for a 24-week covered period.
- Compensation of employees whose principal place of residence is outside of the U.S.
- Payments to contractors, as 1099 employees are eligible to apply for their own PPP loans.
- Taxes withheld or imposed:
 - From employee compensation.
 - Under chapters 21, 22, and 24 of the IRS code.
 - For federal employment taxes, including the employee's and employer's share of FICA (Federal Insurance Contributions Act) and Railroad Retirement Act taxes.
- Qualified sick and family leave for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act.
- Contributions made on behalf of a self-employed individual or a general partner for:
 - Retirement.
 - Employer health insurance.

Are benefit payments to those employees who make more than \$100,000 per year forgivable?

Yes, employer contributions for employee health insurance or retirement plans are forgivable, even for those employees who make over \$100,000 per year. However, contributions for self-employed individuals, general partners, or owner-employees are not eligible.

Are only costs paid during the Covered Period eligible for forgiveness?

Payroll costs paid during the Covered or Alternative Covered Period are eligible for forgiveness. In addition, payroll costs incurred but not paid during the borrower's last pay period of the Covered or Alternative Covered period are eligible for forgiveness if paid on or before the next payroll date. Payroll costs are considered paid on the day paychecks are distributed or the borrower originates an ACH credit transaction, and it is considered incurred on the day that the employee's pay is earned.

To be eligible for forgiveness, non-payroll costs must be paid during the Covered Period or incurred during the Covered Period and paid on or before the next regular billing date, even if that date is after the Covered Period. Non-payroll costs incurred prior to the Covered Period, but paid during the Covered Period, are eligible for forgiveness – this includes past due payments. Costs that are

both paid and incurred during the Covered Period should only be counted once, and in all instances non-payroll costs can account for no more 40% of the full forgiveness amount.

Can I use this loan to help bring back employees who have been laid off?

Yes. This program rewards borrowers that hire back workers who may have been laid off. Loan forgiveness is based on your ability to maintain or quickly rehire employees, and to maintain salary levels.

What will reduce my loan forgiveness amount?

Your loan forgiveness will be reduced if you:

- Decrease your full-time employee headcount. You have until the earlier of December 31, 2020 or the date on which you submit your forgiveness application to restore your full-time headcount for any changes made between February 15, 2020 and April 26, 2020. See below for an important exception.
- Decrease salaries and wages by more than 25% for any employee who made less than \$100,000 annualized in 2019. You have until the earlier of December 31, 2020 or the date on which you submit your forgiveness application to restore employee salaries or wages that were reduced by more than 25%.

Will my loan forgiveness amount be reduced if I laid off an employee, offered to rehire the same employee, but the employee declined the offer?

No, your loan forgiveness amount will not be reduced if you make a good faith, written offer of rehire, and document the employee's rejection of that offer. Employees and employers should be aware that employees who reject offers of re-employment may forfeit eligibility for continued unemployment compensation.

What is the FTE Safe Harbor?

If you reduced your number of FTEs, your forgiveness amount will be subject to a reduction. However, two separate safe harbors exempt certain borrowers from this reduction.

The first FTE Safe Harbor is described in detail below and pertains to borrowers who were unable to restore their level of business operations due to compliance with public health guidelines.

The second FTE Safe Harbor provides an exemption for borrowers who reduced their number of FTEs but then rehired those employees. If you reduced your number of FTEs during the period from February 15, 2020 to April 26, 2020 and restored your number of FTEs by the earlier of the date you submit your forgiveness application or December 31, 2020, your forgiveness amount will not be reduced.

Will my loan forgiveness amount be reduced due to a reduction in headcount if I was unable to operate at the same level of business activity as before February 15, 2020?

No. If you are unable to return operations to pre-February 15, 2020 levels and can document that this was due to compliance with requirements related to standards for sanitation, social distancing,

or any other COVID-19 related worker/customer safety requirement, your forgiveness amount will not be reduced due to a reduction in headcount.

What is the Salary/Wage Safe Harbor?

The Salary/Wage Safe Harbor is designed to promote the restoration of salaries for employees who make no more than \$100,000 annually. Your loan forgiveness amount will be reduced, if, during the Covered or Alternative Covered Period, you reduced, by 25% or more, the salary of an employee who makes up to \$100,000. However, the Salary/Wage Safe Harbor gives you the opportunity to recoup this forgiveness reduction by restoring the salary/wage of impacted employees to their pre-February 15, 2020 levels. If you can document that you restored those salaries by the earlier of the date that you submit your forgiveness application or December 31, 2020, your forgiveness amount will not be reduced.

What if I received an Economic Injury Disaster Loan (EIDL) Advance?

If you received an Economic Injury Disaster Loan (EIDL) Advance in addition to your PPP loan, the SBA will deduct the amount of the EIDL Advance from the forgiveness amount that it remits to Citi, as PPP lender. If the SBA deducts the amount of your EIDL Advance from your forgiveness amount, an unpaid balance will remain outstanding, and you will have to repay that amount, along with any other portion of your PPP loan that is not eligible for forgiveness, with accrued interest, during the remaining term of such loan.

I made a mistake in my initial application. Will that impact my forgiveness amount?

That depends on the nature of the error. Loan forgiveness amounts are based on how you utilized your PPP loan proceeds during your Covered or Alternative Covered Period along with your ability to provide supporting documentation. You must certify that those documents are true and correct in all material respects, and that you used your PPP loan proceeds to keep employees on your payroll and to make eligible mortgage interest, rent, and utility payments. The amount of eligible non-payroll costs that can be forgiven is limited to 40% of the total forgiveness amount. At least 60% of the loan funds must be used for your payroll expenses. You may not qualify for full loan forgiveness if you spend less than 60% of your loan proceeds on payroll expenses; if you reduced the number of individuals that you employ or the salaries of your employees; or if you do not provide documentation verifying how you used all loan funds. In addition, if the SBA determines during their review of your forgiveness application that you were not eligible for the PPP loan, your loan will not be forgiven.

APPLYING FOR LOAN FORGIVENESS

Do I need online access to apply for loan forgiveness through Citi?

Yes, Citi's loan forgiveness application is accessible through your online Citi account. If you do not already have online access, please refer to the recent emails you received from Citi about how to enroll for an online account.

How do I apply for loan forgiveness?

If you received your PPP loan from Citi, you will apply for loan forgiveness using our digital application.

The application will require you to report how you spent your loan proceeds and to provide supporting documentation verifying the number of full-time equivalent employees and their pay rates, as well as payments on eligible mortgage, lease, and utility obligations. You must certify that the documents are true and that you used the forgiveness amount in the ways you reported.

When do I need to submit my loan forgiveness application by?

Payments on your loan will be deferred until 10 months after the completion of your Covered Period. If you have an active loan forgiveness application at that time, your payments will continue to be deferred until the SBA has denied forgiveness or remitted a forgiveness payment to Citi.

Do I need to wait until the end of my Covered or Alternative Covered period to submit my loan forgiveness application?

No, you can submit your application prior to the end of your Covered or Alternative Covered Period. However, loan forgiveness amounts will be based on qualifying expenses and related documentation that have been incurred or been paid as of the time that you submit that application – it will not take planned use of loan proceeds into account. Additionally, eligibility for the full-time employee (FTE) reduction and Salary/Wage reduction Safe Harbors will be based on employment and salary levels on the earlier of the date you submit your forgiveness application or December 31, 2020.

Can I check the status of my loan forgiveness application after I have submitted it?

Yes, once you have submitted your application you will be able to login to the loan forgiveness application portal at any time and view the status of your application.

Will Citi reach out to me if there is a question about my forgiveness application or documents are missing?

Yes, Citi will notify you via email to check the online application portal, which is where you will be able to see if any additional information is needed.

Do I need to complete my loan forgiveness application in a single sitting?

No. At any time during the process you can save your application and logout. When you log back in, you will be able to resume your application.

What should I do if I need help completing my application?

There is an email address provided within the Citi application portal that can be used to submit questions. In addition, for detailed questions relating to your forgiveness eligibility, specific documentation requirements, or circumstances unique to your businesses, we encourage you to review the SBA's guidance or seek guidance from your advisors.

How long will it take for me to be notified of my loan forgiveness amount?

Citi has 60 days to review your complete application. Once we have completed our review, you will receive notification of our decision as to the amount of your loan that will be forgiven. Citi will then submit the application for SBA review. The SBA has 90 days to complete their review. Following the SBA review, Citi will share the final forgiveness decision.

What if I disagree with Citi's decision regarding my forgiveness amount?

After Citi makes a decision regarding your forgiveness amount, you have an opportunity to review that decision. If you disagree with Citi's decision, you are able to request reconsideration of that decision and to submit additional information or documentation supporting your claim.

What is the difference between the PPP Loan Forgiveness Application Form 3508 and the PPP Loan Forgiveness Application Form 3508EZ?

The EZ application requires fewer calculations and less documentation. Borrowers eligible to use the EZ application:

- Are self-employed and have no employees; OR
- Did not reduce the salaries or wages of their employees by more than 25%, and did not reduce the number or hours of their employees; OR
- Experienced reductions in business activity as a result of health directives related to COVID-19, and did not reduce the salaries or wages of their employees by more than 25%.

Citi's digital application accommodates borrowers' applying for forgiveness using the application for which they qualify.

What documentation will I be required to submit when applying for forgiveness?

You will be required to provide documentation that supports your use of loan proceeds during the Covered or Alternative Covered Period. Required documentation will differ depending upon how you used your proceeds and which loan forgiveness application you are using.

Generally speaking, borrowers will need to provide the following types of documentation:

- Payroll documentation verifying eligible cash compensation and non-cash benefit payments during the Covered or Alternative Covered Period. Acceptable documentation includes:
 - Bank account statements or third-party payroll service provider reports; payroll tax filings; and payment receipts, cancelled checks, or accounts statements documenting contributions to employee health insurance or retirement. For Sole Proprietors without employees, Independent Contractors and Self Employed Individuals, please submit 2019 Form 1040 Schedule C.
- Non-payroll documentation verifying the existence of services/obligations prior to February 15, 2020 and eligible payments during the Covered Period. Acceptable documentation will differ depending upon the type of service/obligation.
 - For borrowers using the standard forgiveness application, documentation supporting the number of FTEs during the Covered Period and during the reference period selected by the borrower will be required. Borrowers using the Form 3508EZ Application who indicate that they did not reduce their number of FTEs will need to provide documentation supporting this statement.

In addition to the documentation listed above that you need to submit, you will be required to retain a number of documents. More details can be found in the SBA Application Instructions provided at [SBA.gov](https://www.sba.gov).

Do I need to complete the Schedule A worksheet to apply for forgiveness through Citi?

All borrowers who are using PPP loan forgiveness application Form 3508 need to complete the Schedule A worksheet (included in the SBA application) or obtain its equivalent (i.e. a report from a third party payroll provider) to ensure they have the needed information to complete their application. Schedule A does not need to be submitted, but borrowers should maintain a copy of it for their records. Borrowers using Form 3508EZ application do not need to complete the Schedule A worksheet.

LOAN REPAYMENT

What's the repayment process?

You will not have to make any payments during the payment deferment period. However, interest will accrue on your PPP loan during this period. Following the deferment period, which begins on the loan's approval date, the remaining principal amount of the loan, along with accrued interest at 1% per annum, must be repaid over the remaining term of the loan.

Can I pay my loan off before its maturity date?

Yes. There are no prepayment penalties or fees. A Citi banker can assist with getting this process started; after speaking with a banker you will receive an email statement with your payoff amount. PPP loans accrue interest at 1% per annum. Principal and accrued interest must be paid in full for your loan obligation to be satisfied. In order to repay the PPP loan in full, we recommend that payment be made in the form of certified check, cashier's check or a federal funds wire transfer. Both wiring and mailing information is provided in the statement of the Payoff Amount.

What happens to my PPP loan after the forgiveness period?

After the loan forgiveness period for your PPP loan ends, your loan's principal amount will be calculated as the original loan amount less all expenses that qualified for forgiveness. Following the payment deferment period, which begins on the loan's approval date, the remaining principal amount of the loan, along with accrued interest at 1% per annum, must be repaid over the remaining term of the loan.

How long will payments on my loan be deferred?

If you have an active loan forgiveness application pending 10 months after the end of your Covered Period, your deferment period will end once the SBA remits the loan forgiveness amount to your lender (or notifies your lender that no forgiveness amount is permitted). If you do not have an active loan forgiveness application pending 10 months after the end of your Covered Period, your deferment period will end and loan payments will commence.