



Montagna & Associates, Incorporated

1101 Dove Street, Suite 190
Newport Beach, California 92660-2827
Telephone (949) 833-2371
Facsimile (949) 833-1787
E-Mail into@montagnainc.com

February 23, 2021

Dear Client:

I'm writing to make sure that you're aware that, as part of the year-end Stimulus Act, the President signed legislation extending the Paycheck Protection Program (PPP) and allowing for "second draw loans" for qualifying businesses that received a PPP loan last year.

As you most likely already know, the PPP is an emergency Small Business Administration (SBA) loan program that originally passed as part of the Coronavirus Aid, Relief, and Economic Security Act ([CARES Act](#)) last March. What differentiates the PPP from other SBA loan programs is that, if certain requirements are met, a PPP loan will be forgiven on a tax-free basis, meaning that borrowers are effectively receiving a grant from the federal government - a cash infusion in exchange for which they are expected to maintain employee headcounts at the levels they were at before the COVID-19 emergency.

If your business did not receive a PPP loan last year, you may be eligible for a first-time loan. Please contact me if that's your situation and you need more information on applying for a loan.

If your business received a PPP loan last year, you may be eligible for a second loan under the new Stimulus Act. These second-draw loans are for businesses with no more than 300 employees that experienced at least a 25 percent decline in gross receipts in any calendar quarter in 2020 relative to the same quarter in 2019. Details of the rules for the second-draw program follow.

Eligible and Noneligible Entities

Entities eligible for the PPP Second Draw include businesses, certain non-profit organizations, housing cooperatives, veterans' organizations, tribal businesses, self-employed individuals, sole proprietors, independent contractors, and small agricultural co-operatives. Churches and religious organizations are eligible. Ineligible entities include those involved in political and lobbying activities, "think tanks", entities affiliated with entities in the People's Republic of China; and registrants under the Foreign Agents Registration Act.

Montagna & Associates, Incorporated

Letter Regarding PPP Loan Second Draw

Page 2 of 3

February 23, 2021

Loan Terms

The maximum loan amount under the second-draw program is \$2 million. In general, borrowers may receive a loan amount of up to 2.5 times the average monthly payroll costs in the one year prior to the loan or the calendar year. Seasonal employers may calculate their maximum loan amount based on a 12-week period beginning February 15, 2019 through February 15, 2020. New entities may receive loans of up to 2.5 times the sum of average monthly payroll costs. Entities in industries assigned to NAICS Code 72 (Accommodation and Food Services) may receive loans of up to 3.5 times average monthly payroll costs. Businesses with multiple locations that are eligible entities under the initial PPP requirements may employ not more than 300 employees per physical location. Waiver of affiliation rules that applied during initial PPP loans apply to a second loan. An eligible entity may only receive one PPP second draw loan. Fees are waived for both borrowers and lenders to encourage participation. For loans of not more than \$150,000, the entity may submit a certification attesting that the entity meets the revenue loss requirements on or before the date the entity submits its loan forgiveness application and non-profit and veterans organizations may utilize gross receipts to calculate their revenue loss standard.

Seasonal Employer

A seasonal employer is defined as an eligible recipient which: (1) operates for no more than seven months in a year, or (2) earned no more than 1/3 of its receipts in any six months in the prior calendar year.

Loan Forgiveness

Borrowers of a PPP Second Draw loan are eligible for loan forgiveness equal to the sum of their payroll costs, as well as covered mortgage, rent, and utility payments, covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures incurred during the covered period. The 60/40 cost allocation between payroll and non-payroll costs in order to receive full forgiveness will continue to apply.

Safe Harbor on Restoring Full-time Employees and Salaries and Wages Applies

The rule of reducing loan forgiveness for a borrower reducing the number of employees retained and reducing employees' salaries in excess of 25 percent applies.

Montagna & Associates, Incorporated

Letter Regarding PPP Loan Second Draw

Page 3 of 3

February 23, 2021

We're Here to Help

As you can see, the requirements for determining eligibility and calculating the maximum loan amount available can be a bit tricky. If you are interested in applying for a second-draw loan and have additional questions, would like help in determining if such a loan makes sense, or with the calculations for determining eligibility, maximum loan amount, and loan forgiveness, please don't hesitate to call.

Alternatively, if you know that you want to proceed and you have your payroll and quarterly revenue data handy, there's nothing wrong with getting a loan application started and giving me a call if you hit a snag.

Either way, we're here to help.

Sincerely yours,

A handwritten signature in black ink that reads "Gregory Montagna". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Gregory M. Montagna

GMM:jl
Attachments