



CARES Act Small Business Loan Information and Guide

Important information and Instructions for Small Business Owners pertaining to the Small Business Interruption Loans made available under the Coronavirus Aid, Relief and Economic Security Act. These loans have been referred to as the Paycheck Protection Program (“PPP”).

BACKGROUND:

The Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law on Friday, March 27, 2020. Provisions of this bill include an allocation to the Small Business Administration to guarantee loans to small businesses which have forgiveness provisions for businesses that retain employees for a specified time period. The final details of these loan programs are still under development by the United States Department of the Treasury (“Treasury”) and U.S. Small Business Administration (“SBA”). Friendly Hills Bank intends to be an authorized lender working with the Small Business Administration to provide these loans. This provides local businesses with the opportunity to access this federal loan program through a local financial institution.

ELIGIBILITY:

All businesses – including nonprofits that are 501(c)(3), sole proprietorships, self-employed individuals and independent contractors - with 500 or fewer employees are eligible. The business does not have to be shut down completely or partially. You must be able to demonstrate that you were in business as of February 15, 2020, and either had employees for whom you paid salaries or paid independent contractors as reported on a Form 1099-MISC.

APPLICATION PROCEDURES:

All applications must be submitted by June 30, 2020, and **only complete applications with full documentation as required will be accepted.** This guide provides you with the complete list of documentation requirements. Please follow these directions and **only submit your application when complete.** We will not be able to respond to all incomplete applications or process fragmented applications. In conformance with the SBA Interim Final Rule, Friendly Hills Bank began receiving applications from small businesses on April 3, 2020, and began receiving applications for independent contractors and self-employed individuals on April 10, 2020. The application form is available on our website under the “COVID-19 INFORMATION” tab. **Completed applications should be sent to apply@friendlyhillsbank.com.**

HOW THE LOAN PROGRAM IS STRUCTURED:

This loan program is structured around three specific groups of data collection which you will be responsible to document for ease of verification and compliance. Those data points and how they are defined are consistent across all three aspects of the loan process: **origination, funding and forgiveness** and apply to each part of the process as follows:

	Origination	Funding	Forgiveness
	<i>One Year Prior</i>	<i>Use of Funds</i>	<i>8 Weeks After</i>
Payments to or on behalf of Employees: *	100%	75%+	75%+
Salaries, Wages, Commissions, Tips, Leave, etc.	X	X	X
Group Health Insurance Costs	X	X	X
Retirement Benefit Costs	X	X	X
State/Local Taxes on Employee Compensation	X	X	X
Self-Employment Income	X	X	X
Other Business Expenses:		up to 25%	Up to 25%
Interest Portion of Mortgage Payments		X	X
Rent Payments		X	X
Utility Payments		X	X
Interest Portion of Other Business Debt		X	

HOW THIS LOAN GUIDE IS STRUCTURED:

To help you understand how the loan program works and make it as easy to apply and follow as possible we have broken this guide down into four sections corresponding to each stage of the loan process. Those sections are as follow:

- ORIGINATION: Everything that you need to apply for your loan and the process for calculating how much you are qualified to borrow under current rules.
- FUNDING: What business purposes you are eligible to use the borrowed funds for and the process you should follow to ensure compliance with the program under current rules.
- FORGIVENESS: How the amount of your loan which will be forgiven is calculated and what documentation is required in order for you to process the forgiveness based on current rules.
- OTHER INFO: Important information that you need to know about the loan program and some useful tools which will help you to manage the loan and remain in compliance with the current rules, including an application checklist to ensure that your application is complete.

All applications must be submitted by June 30, 2020, to apply@friendlyhillsbank.com and **only complete applications with full documentation as required will be accepted.**

ORIGINATION – DEFINING PAYROLL COSTS:

One of the most critical aspects of the loan program is to understand the definition of “Payroll Costs”. It is referred to in many aspects of the loan program and is the key focus of the program design which is intended to maximize small business employment. For the purposes of this program, Payroll Costs are defined to include:

- (A) Employee salaries, wages, commissions, cash tips or the equivalent;
- (B) Payment for vacation, parental, family, medical or sick leave;
- (C) Allowance for separation or dismissal;
- (D) Employer cost for group health care coverage including premiums;
- (E) Retirement plan contributions;
- (F) State and local taxes assessed on compensation of employees; and
- (G) For a sole proprietor or independent contractor all wages, commissions or net income from self-employment (based on your 2019 Schedule C).

Payroll costs do not include:

- (A) Any compensation of an employee whose principal place of residence is outside of the United States;
- (B) Compensation of an individual employee (or sole proprietor or independent contractor) over \$100,000 per year (pro-rated as necessary);
- (C) Federal employment taxes imposed or withheld between February 15, 2020, and June 30, 2020; and
- (D) Sick leave and family leave provided by the new Families First Coronavirus Response Act for which there are already tax credits.

NOTE: Independent contractors DO NOT count as employees for the purposes of these calculations but do have the ability to apply for a PPP loan on their own.

ORIGINATION – MAXIMUM LOAN AMOUNT:

The maximum loan you can receive will equal 2.5 times your average “payroll costs” during 2019 calendar year or the 1-year period before the loan is taken. If you took out an SBA “disaster loan” on or after January 31, 2020, then your loan amount can be increased to include a refinancing of this disaster loan. Maximum loan amount is \$10,000,000. To confirm the amount of loan that you are eligible for you must provide us with a breakdown of all payroll costs which you are using and attest to that information. We recommend using the loan calculator which is available on our website. You, as the Borrower, are fully responsible for the accuracy of this calculation.

ORIGINATION - INFORMATION YOU WILL NEED TO CALCULATE LOAN AMOUNT:

To determine what is 2.5 times your average monthly payroll costs you will need to provide the following documentation with your application:

- (A) A report from your payroll provider showing:
 1. Employee wages including the business owner and family members;
 2. Paid time off, vacation, sick pay, family medical pay, etc. for all of the above; and
 3. Withholding for state and local taxes on employee compensation.;
- (B) Documentation from your group insurance carrier or broker showing how much you, the employer, paid in employee group health insurance premiums; and
- (C) Documentation from your plan administrator showing the amount of retirement plan funding you, the employer, made for employees (profit sharing 401(k) plans, cash balance plans, SIMPLE and SEP IRAs). If your 2019 plan administration has been completed, you should use this as the basis for these figures. Please note that your employees' own 401(k) salary deferrals should not be included; and
- (D) For self-employed and independent contractors copies of 1099's, expense records and the 2019 Schedule C from your personal tax returns even if you have not yet filed your 2019 personal taxes (you can provide just the Schedule C information).

The above information should be for either the most recent twelve months of data available or for the 2019 calendar year. If you are a seasonal business, or a business which was in operation as of February 15, 2020, but has not been in operation for a full year, you can use partial year data with a statement of explanation as to why you are using partial year data. Time period for all data used should be consistent. For self-employed and independent contractors only 2019 Schedule C information will apply.

ORIGINATION - CALCULATING LOAN AMOUNT:

The formula for calculating your maximum loan amount is:

+	Salaries, wages, commissions, vacation and sick pay
-	Compensation above \$100,000 per individual
+	Group Health Insurance Costs
+	Retirement Benefit Costs
+	State/Local Taxes on Employee Compensation (i.e., employer U.C. tax)
+	Self Employment Income
-	Self Employment Income above \$100,000 per individual
=	Subtotal of Annual Payroll Expenses and/or Self-Employment Income
÷	12
=	Subtotal of Monthly Payroll Expenses and/or Self-Employment Income
X	2.5
=	Maximum Loan Amount * (cannot be over \$10,000,000)

We strongly recommend using the loan calculation tool which is available on our website to determine the maximum amount of loan you are eligible for.

FUNDING - USE OF FUNDS:

The loan proceeds may only be used for specific overhead expenses which includes:

- (A) Payroll costs (see ORIGINATION - DEFINING PAYROLL COSTS);
- (B) Costs related to the continuation of group health care benefits during periods of paid sick, medical or family leave and insurance premiums;
- (C) Interest (not principal) payments on mortgages incurred prior to February 15, 2020;
- (D) Rent under lease obligations in force prior to February 15, 2020;
- (E) Utility payments for which services began prior to February 15, 2020;
- (F) Interest payments on any other debt obligations incurred before February 15, 2020;
- (G) Refinancing of an SBA EIDL loan made between January 31, 2020, and April 3, 2020; and
- (H) Owner Compensation Replacement for self-employed based on 2019 Net Income.

Borrowers should be prepared to carefully document and track all uses of the loan proceeds. This will include receipts for loan payments on business debt and mortgages verifying the amount of payment including a breakdown of principal and interest, copies of lease agreements showing the date of origination and rental payment requirement and copies of utility bills showing that the service was for the location of the business. Please note that **at least 75%** of the PPP loan proceeds must be used for payroll costs. Our loan calculator provides the calculations you need to ensure that you remain compliant with the terms of loan use. We recommend using it to project your potential uses and update it as funds from the loan are used to ensure that you remain in compliance with the loan terms.

FUNDING – IMPORTANT INFORMATION:

Funding of the loan is dependent upon your submission of a completed application to Friendly Hills Bank by June 30, 2020, and final confirmation to Friendly Hills Bank from the SBA. Friendly Hills Bank reserves the right to withhold funding of any loan application at its own discretion based on funding resources, program status, our agreement with the terms of the SBA guarantee and availability under the program. Friendly Hills Bank will make no representations that completed applications will be processed in the order in which they are received. Friendly Hills Bank will fund your loan in one disbursement upon execution of the note which must occur within 10 calendar days of SBA approval or your loan will be considered withdrawn. Friendly Hills Bank reserves the right to limit loan funding to one disbursement.

FUNDING - REPAYMENT TERMS AND PROVISIONS:

All loans will have the same terms with no customization by the lender allowed. The interest rate will be 1.00% and the loan term will be two years. The initial payment will be deferred for six months with interest accruing during that time. There are no prepayment penalties or fees for borrowers who wish to accelerate payments on the loan. We will not charge you, the borrower, any loan fees to obtain this loan. Complete repayment terms are pending final determination by Treasury and SBA.

No collateral will be required and there is no personal guarantee requirement. However, if the proceeds are used for fraudulent purposes the U.S. Government will pursue criminal charges against you.

FORGIVENESS – HOW DEFINED:

A unique aspect of this loan program is that it will provide partial loan forgiveness for certain expenses which are incurred **for an eight week period** beginning from the funding of the loan. The amount of loan forgiveness will equal the sum over that period of time of the employer's:

- (A) Payroll costs (see ORIGINATION - DEFINING PAYROLL COSTS);
- (B) Interest (not principal) on any mortgage debts that were incurred prior to February 15, 2020;
- (C) Rent based on lease agreements in force before February 15, 2020; and
- (D) Utilities, including electricity, gas, water, transportation, telephone and internet access.

Not more than 25% of the forgiven amount may be for non-payroll costs (items B, C and D).

Borrowers should be prepared to fully track and document these expenses in order to receive the loan forgiveness benefit. Please refer to “Forgiveness – Required Documentation” information in this guide.

FORGIVENESS – CALCULATING:

We require Borrowers to prepare now for the calculation of their forgiveness so that they can be properly prepared for the documentation requirements. To determine the amount of forgiveness Borrowers should forecast their projected expenses in the acceptable categories over the eight weeks following funding and be prepared for the need to report certain non-payroll expenses at less than actual amounts in order to be within the requirements of the program. The calculation of forgiveness is:

- + Payroll Costs (must be at least 75% of total forgiveness calculation)
- + Interest (not principal) payments on mortgages incurred prior to February 15, 2020
- + Rent under lease obligations in force prior to February 15, 2020
- + Utility payments for which services began prior to February 15, 2020
- = Total Forgiveness Amount (up to outstanding loan amount)

We strongly recommend using the loan calculation tool which is available on our website to forecast your expenses which qualify for forgiveness.

FORGIVENESS - IMPORTANT INFORMATION:

The purpose of the loan forgiveness structure is to encourage you, the employer, to keep everyone employed. The information provided is based on most recent guidance and **SBA will be issuing additional guidance on loan forgiveness**. This may include requirements on payroll count and not lowering salaries to certain employees. We will provide updates on the loan forgiveness structure through our website as soon as they become available. Friendly Hills Bank will only process requests for loan forgiveness with complete documentation satisfactory to Friendly Hills Bank and in conformance with the SBA guidelines.

SPECIAL NOTE FOR SELF-EMPLOYED: Per current guidelines your forgiveness amount is capped at 15.38% (eight weeks divided by 52 weeks) of line 31 of your 2019 Schedule C.

FORGIVENESS – REQUIRED DOCUMENTATION:

The borrower will have to show evidence that they actually spent money on the things that are eligible for loan forgiveness. Exactly how this will be done is still to be determined but it is reasonable to expect that this will involve a follow-up application to Friendly Hills Bank for loan forgiveness which, at minimum, includes the following:

(A) Documentation verifying the number of employees on payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments and covered utility payments during the 8-week period following the funding of the loan;

(B) Documentation may include reports from your payroll processor (clients of Friendly Hills Bank Payroll will automatically comply), copies of cancelled checks with corresponding bank statements, accounting reports, etc., verifying payments on mortgage, rent and utility payments;

(C) Copies of Mortgage statements for payments made which verifies the amount of payment including a breakdown between principal and interest;

(D) Copies of lease agreements showing the origination date of the lease and payment terms; and

(E) A certification from an officer or owner of the borrower that the information being submitted is true and that the amount for which forgiveness is being requested was used to retain employees and make business payments on mortgage, rent and utility payments.

Borrowers should prepare now to identify and retain these documents to justify loan forgiveness within the terms of the loan agreement.

OTHER INFO - ATTESTATION:

For your application to be considered you will be required to sign the SBA Application Form (available on our website) which includes your attestation to the accuracy of the information provided and that you are an authorized signer. This includes certification statements (further described below) which clearly state that the current economic uncertainty makes the loan necessary to support your ongoing operations. You are also acknowledging severe penalties applicable to making false statements in order to obtain a loan. **Please pay attention to these statements and your application details as you will be bound by them.**

OTHER INFO - AFFILIATES:

The SBA has implemented special rules specific to this program regarding affiliation for purposes of determining the number of employees of an applicant. The rules primarily focus on these affiliation tests:

- A) Ownership – greater than 50% ownership or deemed control by a minority shareholder;
- B) Options and Merger Agreements – are deemed to have a present effect on power to control;
- C) Management – applies if same officers control multiple companies;
- D) Identity of Interest – applies to close relatives operating concerns in same or similar industry;
- E) Religious Exemption – not considered affiliated if part of a larger church order; and
- F) Waivers are in effect for Accommodation and Food Services Sector and Franchise Operations.

OTHER INFO - THINGS TO BE AWARE OF BEFORE APPLYING:

Borrowers will need to make a “good faith certification” to the following:

- (A) The applicant was in operation on February 15, 2020, and had employees for whom it paid salaries and payroll taxes or paid independent contractors as reported on a Form 1099-MISC;
- (B) Current economic uncertainty makes the loan necessary to support the ongoing operations of the applicant;
- (C) The funds will be used to retain workers and maintain payroll or to make mortgage, lease and utility payments;
- (D) The applicant understands that if the funds are knowingly used for unauthorized purposes the federal government may hold the signer(s) legally liable such as for charges of fraud;
- (E) You have not and will not receive another loan under this program between February 15, 2020, and December 31, 2020;
- (F) You will provide to Friendly Hills Bank sufficient documentation that verifies the number of full-time equivalent employees on payroll and the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments and covered utility payments for the eight week period following funding of the loan;
- (G) Loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments and covered utilities and that you understand that not more than 25% of the forgiven amount can be for non-payroll costs;
- (H) All of the information you provided in your application and in all supporting documents and forms is true and accurate in all material respects;
- (I) You understand that knowingly making a false statement to obtain a guaranteed loan from SBA is punishable under the law, including under 18 USC 1001 and 3571 by imprisonment of not more than five years and/or a fine of up to \$250,000; under 15 USC 645 by imprisonment of not more than two years and/or a fine of not more than \$5,000; and, by virtue of being submitted to a federally insured institution, under 18 USC 1014 by imprisonment of not more than thirty years and/or a fine of not more than \$1,000,000;
- (J) You acknowledge that Friendly Hills Bank will confirm the eligible loan amount using the required documents you submitted;
- (K) You understand, acknowledge and agree that Friendly Hills Bank can share any tax information with SBA’s authorized representatives, including authorized representatives of the SBA Office of Inspector General for the purpose of compliance with SBA Loan Program Requirements and all SBA reviews.

OTHER INFO – LOAN CALCULATION TOOL:

In order to help you prepare your application, properly manage your loan proceeds and assist you with your forgiveness benefit we have prepared an excel spreadsheet which does all of the calculations for you. If you are applying with Friendly Hills Bank we reserve the right to require your completion of this information to document your calculation of loan amount, intended use of proceeds and understanding of the forgiveness provisions. This tool is available on our website as shown above. An example follows:

OTHER INFO – LOAN CALCULATION TOOL EXAMPLE:



Calculation of Maximum Loan, Proper Use of Funds and Potential Forgiveness
Paycheck Protection Program ("PPP")

(Figures in RED are for client input - all other cells calculate)

APPLICANT:		Enter Your Business Name Here	
Calculation of Loan Qualifiers:		Annual or Annualized	Monthly
Salaries, wages, commissions, vacation and sick pay other than qualified sick or family leave		750,000.00	62,500.00
Compensation above \$100,000 per individual		12,000.00	-1,000.00
Group Health Insurance Costs		40,000.00	3,333.33
Retirement Benefit Costs		25,000.00	2,083.33
State/Local Taxes on Employee Compensation (i.e., employer U.C. tax)		3,000.00	250.00
Self-Employment Income (per line 31 of 2019 Sch C subject to \$100,000 max)		125,000.00	8,333.33 (Adjusted)
Subtotal			\$75,500.00
	Multiplier:		2.50 x
Calculated Loan Amount Based on Qualifiers:			188,750.00
Maximum Loan Amount			10,000,000.00
Loan Amount Available			188,750.00
How much do you want to borrow? (not more than \$188,750.00)			\$188,750.00
Use of Funds Calculator:		Possible Uses	Allowable Uses
Payroll Costs (including benefits and state/local taxes)		\$150,000.00	\$150,000.00
plus Owner Compensation Replacement (eight weeks of 2019 net income up to \$100,000)		15,384.62	15,384.62
Total Payroll Costs (must be at least 75% which is \$141,562.50 based on full loan amount)		\$165,384.62	\$165,384.62 87.62%
Interest (not principal) payments on mortgages incurred prior to February 15, 2020		3,000.00	3,000.00
Rent under lease obligations in force prior to February 15, 2020		25,000.00	20,365.38
Utility payments for which services began prior to February 15, 2020		7,000.00	0.00
Interest payments on any other debt obligations incurred before February 15, 2020		5,000.00	0.00
		\$40,000.00	23,365.38
Total Use of Funds			\$188,750.00
Loan Forgiveness Calculator (based on first eight weeks after funding):		Projected Expenses	Forgiveable Expenses
Payroll Costs (including benefits and state/local taxes)		\$120,000.00	\$120,000.00
plus Owner Compensation Replacement (eight weeks of 2019 net income up to \$100,000)		15,384.62	15,384.62
Payroll Costs (must be at least 75% of total forgiveness calculation)		\$135,384.62	\$135,384.62 79.46%
Interest (not principal) payments on mortgages incurred prior to February 15, 2020		3,000.00	3,000.00
Rent under lease obligations in force prior to February 15, 2020		25,000.00	25,000.00
Utility payments for which services began prior to February 15, 2020		7,000.00	7,000.00
		\$35,000.00	\$35,000.00
Total Calculated Forgiveness			\$170,384.62
Monthly Average FTE		2/15/19 to 6/30/19: 50	1/01/20 to 2/29/20: 48
Monthly Average FTE (for first eight weeks after loan funding or by June 30, 2020)	45	compared to base: 48	Forgiveness Reduction: 6.67%
Dollar Amount of Annualized Employee Compensation Reduction over 25% (exclude employees who had annualized compensation > \$100,000 during 2019)		\$15,000.00	-\$15,000.00
Total Applicable Forgiveness			\$144,025.64
Balance of Loan Not Forgiven			\$44,724.36

NOTES: This calculation is based upon the most recently available information and is not guaranteed to be accurate. Applicants should check with their tax advisor to confirm eligibility and applicable forgiveness calculations. Friendly Hills Bank makes no representation as to the accuracy or reliability of these calculations. Borrower is fully responsible for their own calculations and compliance with the terms of the loan.

_____ Signature of Authorized Representative for Business	_____ Date
_____ Print Name	_____ Title
_____ Signature of Owner of Applicant Business	_____ Date
_____ Print Name	_____ Title

OTHER INFO - REQUIRED DOCUMENTATION CHECKLIST:

In order to complete your application you will need to provide Friendly Hills Bank with the following documentation. **Only complete applications will be accepted for processing.** Please note that final standards have not been established by the SBA and that this list is subject to change. This information can be used as a checklist to ensure that you have the required documents. Understand that Friendly Hills Bank reserves the right to determine if submitted documents are sufficient to qualify and to request additional information as necessary to ensure compliance before and after the funding of the loan.

- _____ (A) Fully completed and executed loan application (available on our website).
- _____ (B) Signed copy of this guide demonstrating that you are aware of the loan standards and application requirements (see signature lines on last page)
- _____ (C) Fully completed and executed Certification Regarding Beneficial Owners of Legal Entity Customers (available on our website).
- _____ (D) A detailed report executed by the Borrower showing justification for the loan amount requested, intended use of proceeds and projected level of forgiveness (see the FHB PPP Calculator on our website as a guide).
- _____ (E) A clear detailed report from your payroll provider showing employee wages, paid time off, vacation pay, sick pay, family medical pay and withholding for state and local taxes on employee compensation in the last twelve months for the most recent period such data is available – OR – if applying as self-employed or independent contractor copies of 1099-MISC for the last twelve months.
- _____ (F) A report from your payroll provider showing that you were in operation as of February 15, 2020, and at that time had employees for whom you paid salaries and payroll taxes or paid independent contractors as reported on a Form 1099-MISC – OR – if applying as self-employed or independent contractor copies of 1099-MISC or other documentation that shows you were working as of February 15, 2020.
- _____ (G) Documentation from your health insurance provider showing how much you, the employer, paid in employee group health insurance premiums for the last twelve months consistent with the time period of your payroll data.
- _____ (H) Documentation from your plan administrator showing the amount of retirement plan funding that you, the employer, made for employees under profit sharing 401k plans, cash balance plans, SIMPLE and SEP IRA's for the last twelve months consistent with the time period of your payroll data.
- _____ (I) Most recent tax return filed for the business or if applicable personal return(s) with Schedule C. Self-employed or Independent Contractor must provide 2019 Schedule C even if they have not filed 2019 personal taxes – just Schedule C is acceptable).
- _____ (J) Fully completed and executed Certification of Tax Returns / Financial Statement Compliance Certificate (form available on our website).
- _____ (K) Copy of a bank statement on an account for the business covering a time period that includes February 15, 2020.

OTHER INFO - OUR MESSAGE TO YOU:

We recognize that these are unprecedented times which are highly stressful for everyone. As your local community bank it is our intention to provide everything that we reasonably can to guide you and assist you through the current situation. To assist you in analyzing this loan opportunity and preparing your documents we have developed a PPP Calculation Tool which is available on our website under the "COVID-19 INFORMATION" tab. Please understand that many aspects of this program, and other government programs, are still in development and we are using all of our resources to remain informed as a resource to you. There is a lot of information being floated around in the media and on social media pages which can be deceptive or untrue. Always consider the source of the information you are depending on and feel free to reach out to us if you have any questions or concerns. We also encourage you to check our website for updated information. Small business is our business and we are here to do everything we can to help you through this current situation.

DISCLAIMER:

The information contained in this document is based on the most recent and reliable information available to us and Friendly Hills Bank makes no representation as to its accuracy or dependability. Friendly Hills Bank makes no assurance to Applicants that they will receive funding under this program.

ACKNOWLEDGEMENT:

By signing below the applicant acknowledges that they have received and reviewed this document and agree to attest to the accuracy of all information provided to Friendly Hills Bank for consideration of the loan. Applicant further acknowledges that participation in the Paycheck Protection Program and funding of the loan is completely at the discretion of Friendly Hills Bank and the United States Small Business Administration.

Signature of Authorized Representative for Business

Date

Print Name

Title

Signature of Owner of Applicant Business

Date

Print Name

Title

Update: April 19, 2020