

Second-draw PPP loan applications can now be submitted



On January 15th, the Small Business Administration (SBA) authorized lenders to begin accepting applications for new first-draw and second-draw loans under the Paycheck Protection Program (PPP). The time frame for both new first and second-draw PPP loans is brief, so interested businesses should move quickly. The window closes on March 31, 2021, unless Congress again extends it.

The SBA has released two sets of interim final regulations and a new second-draw loan application. Here are the highlights.

First-draw PPP loan interim regulations

The [first set of regulations](#) mostly rehashes the rules for first-draw loans, with these exceptions, as sanctioned in the CAA.

- Borrowers who returned all or part of their PPP loans or borrowers who didn't accept the full amount of their PPP loans can reapply for first-draw loans, up to their eligibility amount.
- New borrowers can use either 2019 or 2020 to calculate payroll costs for purposes of determining their maximum loan amount. This way, new borrowers are on the same footing as borrowers who took their first PPP loans last year.
- Partnerships that received loans that included only the amounts necessary for payroll costs of their

employees and other eligible operating expenses, but didn't include any amount for partner compensation can reapply for a first-draw loan for this difference.

Second-draw PPP loan interim regulations

Second-draw PPP loans [are generally available](#) under the same circumstances and use the same criteria as first-draw loans.

You're eligible for a second-draw loan if you:

- Paid back or will pay back your first PPP loan by the time your second loan is disbursed to you.
- Don't have more than 300 employees.
- Can show your gross receipts dropped at least 25% in a calendar quarter in 2020 compared to the same calendar quarter in 2019.

Loan forgiveness you received in 2020 doesn't count toward your gross receipts.

Maximum second-draw loans can't exceed 2.5 times your average monthly 2019 or 2020 payroll costs, up to \$2 million. Unlike first-draw loans, the relevant time period for calculating your payroll costs is either the 12-month period prior to when the loan is made or the 2019 calendar year.

Filing for second-draw loans

You don't have to submit any additional documentation to substantiate your payroll costs to your lender if you:

- Used calendar year 2019 figures to determine your first-draw loan amount.
- Also used calendar year 2019 figures to determine your second-draw loan amount.
- Used the same lender.

Second-draw PPP loans are made by completing [Form 2483-SD](#), *Paycheck Protection Program Second Draw Borrower Application Form*. If you don't qualify for the exception to submitting documentation, you must submit the following documents with your loan application.

- Form 941 or other tax forms containing similar information, state unemployment quarterly wage, and tax reports from each quarter of 2019 or 2020. Use whichever you used to calculate your payroll costs or equivalent records from your third-party payroll processor.
- Evidence of retirement and employee group health, life, disability, vision, and dental insurance contributions.
- Form 1065 K-1s for partnerships.
- For loans with a principal amount greater than \$150,000, documentation showing a 25% reduction in revenue. This may include relevant tax forms, including annual tax forms, or, if relevant tax forms aren't available, a copy of your quarterly income statements or bank statements.

If you borrow \$150,000 or less, you'll need to present documents of your reduction in revenue when you submit your loan-forgiveness application.

The SBA tries to improve the execution of the second round of PPP loans

The first round of PPP loan administration met many challenges and much criticism. The SBA claims it's trying to do better on round 2, but it's unclear how effective those efforts will be.

Applicants still don't apply to the SBA directly for a PPP plan, which seems to be causing a lot of the problems. Lenders forward your loan application to the SBA, which approves or disallows it. It's the same process when

you apply for loan forgiveness. If your lender messes up, you're the one who's caught in the middle.

For first-draw loans, the SBA says one of the reasons for holding up loan approval is anomalies in employers' applications. 4.7% of the data submitted by lenders contained mismatches and eligibility concerns. These discrepancies must be addressed by lenders and borrowers before second-draw loans can be approved.

The SBA says it's addressing the PPP loan review process so second-draw loan applications can be processed efficiently.

- Lenders will be briefed about the additional information the SBA needs to resolve issues related to its review of first draw loans. They'll also be briefed on potential holds impacting second-draw loan application approvals.
- The SBA's field team of lender-relations specialists will be provided with information allowing them to support lenders' and borrowers' understanding of the issues. Additionally, they will facilitate appropriate responses to resolve those issues.
- Additional guidance will be provided to lenders regarding the review and resolution process.

Banks still aren't fully pleased with the rollout

Banks don't want to be the bad guys here.

In a Jan. 25, 2021, [letter](#) to the acting treasury secretary, the American Bankers Association (ABA) pointed to some significant issues preventing the program from operating smoothly.

- The PPP portal doesn't appear to permit lenders to upload borrowers' applications for second-draw loans if borrowers submitted applications for forgiveness of their first-draw loan and the forgiveness applications are pending with SBA.
- Lenders are receiving a high number of incorrect error messages when they attempt to submit PPP loan applications through the portal. The error messages may state incorrect limitations on second-draw loan amounts or that a borrower's first draw loan is under review when the loan isn't under review.
- The SBA is unresponsive when lenders attempt to resolve these error messages.

The ABA also noted a discrepancy between when the window for second-draw loans opened and the SBA's release of its latest set of FAQs. Those FAQs, which were issued last week and after the window opened, require borrowers to show a 25% revenue reduction for second-draw loans. But borrowers had already begun applying for their second-draw loans. The ABA wants the SBA to clarify that borrowers and lenders can rely on the guidance at the time lenders received borrowers' loan applications.

The stats

For the period ending Jan. 24, 2021, the SBA [reports](#) 4,526 lenders submitted loan applications, of which 400,580 had been approved, for a total of \$35,017, 654, 071 in net funds disbursed.

Additional Resources: Read up on [how you apply for loan forgiveness](#) if you took a first-draw PPP loan.