

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 20: SBA PPP Loan Forgiveness

(33:06; published May 26, 2020)

Description: *This podcast takes a first look at the recently released Paycheck Protection Program (PPP) loan forgiveness application. Recurring guest Dave Biedenbach, regional director of the Iowa State University Small Business Development Center, is joined by Tim Wolfe, president and CEO, and Ryan Newton, commercial loan officer, both of State Savings Bank in West Des Moines, Iowa. Guided by host Steve Adams the discussion examines the PPP forgiveness application with important advice for small business owners who are currently working through the process. (May 26, 2020.)*

Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19. In this webinar, we'll be discussing the Paycheck Protection Program loan forgiveness application that was just released by the US Small Business Administration late last week. Our guests today are Dave Biedenbach, regional director of the Ames SBDC, Tim Wolfe, president and CEO and Ryan Newton, commercial loan officer, from State Savings Bank in West Des Moines. Gentlemen, thank you for being with us today. Before we get into the heart of today's topic, Dave, would you remind us what the Paycheck Protection Program is and how it works, otherwise known as PPP?

Dave Biedenbach, SBDC 01:34

Sure. The paycheck protection program was created through the initial CARES Act that was signed into law in late March. It's essentially a notify, I'm sorry, a modified version of the SBA's 7A Loan Guarantee Program, and was designed to help businesses stay open and retain employees by providing loans to help fund payroll and other operating costs that were historically funded from revenue but, because of COVID-19, the business has seen those revenues reduced or in some cases eliminated. The attractive portion of this program is that these loans can be forgivable in total or partially, if the borrower complies with certain conditions on how the funds are spent. So it's a relatively new program. But again, it's a modification of an existing SBA loan guarantee program.

Steve Adams, host 02:25

At the outset, Dave, what were some of the challenges your clients had in completing the PPP or even determining whether they should even apply for the loan?

Dave Biedenbach, SBDC 02:34

So the primary criteria for eligibility for this program is that you had to certify that the business was impacted by COVID-19. Um, as you can imagine, most businesses had some level of financial impact. So there was a very high demand for the program. The loan program, I'm sorry, the loan application process itself was pretty straightforward. SBA did a pretty good job of trying to streamlining that as



much as possible. Again, a high demand created some bottlenecks. Because it is structured as an SBA loan, businesses had to work through a registered SBA lender. Not all banks are registered SBA lenders and many banks who were registered were not actively underwriting SBA guaranteed loans. So there's a steep learning curve to get these banks up to speed on SBA processes and systems. On top of that, there was also some issues early on with the SBA system that created some delays. And then the funding ran out, and the program was suspended until Congress passed the next round of recovery bills that provided more funding for the program. When the program was introduced, there was some general guidelines that were provided, but there were lots of questions, because pretty much every business's circumstances were different. Additional and more detailed guidelines and FAQs were provided by SBA over the past five to six weeks. But the guidelines to help businesses determine the loan forgiveness piece of the program didn't come out until last Friday. So the loan forgiveness guidelines was what most applicants were interested in. So not having these guidelines until recently made it difficult for these businesses to determine how they need to staff their operations to comply with the interest, I'm sorry, the intent and rules of the program, as well as ensuring they captured the necessary financial records and HR documents needed to apply for the loan forgiveness.

Steve Adams, host 04:27

As you mentioned, there were actually two funding sorties that went out and that first one was exhausted within 13 days, I believe, is that correct, Dave?

Dave Biedenbach, SBDC 04:37

Yeah, I think it was within 10 days, I think it was exhausted.

Steve Adams, host 04:41

So the second round has come out. And now we know as of last week that the loan forgiveness application is available. Could you maybe describe a little bit what that document might entail for our listeners?

Dave Biedenbach, SBDC 04:54

Sure. The best way I can describe it is that it's kind of laid out similar to what I would consider like an income tax return. There are forms schedules, tables and some fairly detailed instructions and descriptions of the information that needs to be included in each section of the application. I think it's an 11 page document. What I found most valuable was that the document did provide those answers to several of the questions that have come up since the program was introduced back in March, which is kind of nice. I mean, there was a lot of people, again, that weren't really sure what needed to be taking place in their business and what records they needed kept. So this document definitely provides a little bit more clarity to that.

Steve Adams, host 05:35

I know there was a lot of confusion with that on what documents should I keep. And I think one of the things that we heard early on was, just keep everything because we don't know yet what it is you might need. So as you reviewed it for the first time, Dave, what were your first impressions, I guess, as you looked at that document?

Dave Biedenbach, SBDC 05:52

Well, I think the application may be a little challenging for some of the applicants or borrowers, particularly for those borrowers that had not done really good job in the past of tracking their expenses and staffing levels. It was nice to see again that the SBA provide a little flexibility some areas, particularly by providing some options for what they call the covered period, which is effectively that eight week period that ties to the forgiveness piece of the program. Initially, the guidance was that that eight week period started when the loan proceeds were dispersed. And this may not align with the

business's payroll periods. So the SBA offered an alternative option for the eight week period to begin on the first day of the first pay period after the loan disbursement so that the eight week aligns with the company's payroll period. So it just makes it a little bit easier for the businesses to track those expenses during those eight weeks. They're also allowing expenses that were incurred. Some people had some questions about, do I have to make sure a check has been cut during those eight weeks for it to be included? There was, again, some clarity on that, saying that it doesn't necessarily have to be paid during that eight weeks, it just needs to be incurred. But there has to be some documentation that eventually it was paid. There's still some questions about what can be included in, like utility expenses was included. There's some guidance that was put out that utilities can include transportation costs, but they didn't define what that really means. So there's still some questions that are kind of hanging out there that we need some more clarity on and hopefully, some more guidance will be coming on this.

Steve Adams, host 07:31

There's been some conversation that that forgiveness period might extend out to 16 weeks, do you think that'll ever see the light of day?

Dave Biedenbach, SBDC 07:38

Well, that's definitely being discussed in Congress. I mean, we have a couple congressmen in Iowa here that are working on those bills, and they've made some comments during this week saying that's definitely on the plate. So yeah, hopefully, that is something that comes out that relatively quickly, just again to provide some more clarity

Steve Adams, host 08:01

Again, you mentioned payroll expenses, then also utility costs and some clarification there. People may or may not know that you can also use this for lease and mortgage payments as well, isn't that correct?

Dave Biedenbach, SBDC 08:15

That is right. And it's also interest on mortgages and equipment.

Steve Adams, host 08:23

Are there particular areas, though, that you feel small business may struggle to complete? How would you advise them, I guess, in those areas if they get a little nervous about this.

Dave Biedenbach, SBDC 08:32

So there are circumstances that may reduce the amount of forgiveness that's awarded. And I think some businesses may struggle with these calculations. It's pretty well laid out, I guess, in the application. Essentially, the loan forgiveness amounts will be reduced if the borrower did not meet certain criteria. For example, a business is required to maintain a certain level of employees, and by employees, they measure that based on full time equivalents, as well as wages during that covered period. This calculation also takes into consideration other circumstances where the reduction could potentially be restored if the number of employees or their wages are ultimately restored by June 30. So there's a little bit of complexity with that calculation. And, again, this requires the borrower to capture the appropriate financial records and HR documents after the end of the covered period. So, again, it's probably going to be something that they are going to have to really think through and work on and maybe even get assistance.

Steve Adams, host 09:35

They can turn to you for that assistance, can they not, David?

Dave Biedenbach, SBDC 09:38

Yeah, absolutely. I mean, that's kind of one of our roles is to be up to speed about the definitions that are provided in there and kind of the application process itself. But it's basically coming down to helping the client understand the rules and calculations for those reductions, restorations, and helping them identify what documents are required to support those calculations.

Steve Adams, host 10:02

Well, Tim, I imagine you and Ryan were in the thick of all this when it was released in late March. Did you have many customers taking advantage of the PPP? And can you tell us a little bit about your experience with that program? Tim?

Tim Wolfe, State Savings Bank 10:15

Well, thank you, Steve, it was really quite the experience. Number one, you know, the program came out, and there really wasn't a lot of time between, you know, understanding the information and taking the applications. So, we were drinking basically from a water hose, and with all the information. And probably our biggest challenge was, how are we going to process, you know, all those loans. So it did take us a little bit to figure out what software package that we were going to select. So once that was done, and then you think about getting your loan officers up to speed, and that's where Ryan was super helpful. So we had a really great team effort to pull this all together. And at the end of the day, we closed over 164 PPP loans over about \$8.5 million, which is an average of just under \$52,000 per loan. And in the first round, I think we got down to maybe one or two applications that did not get entered because the funding had run out. But otherwise we were very successful in, you know, getting loans approved. And it was an interesting time, because you had the customers that were freaking out because they wanted to get their loan approved and they heard the monies were going to run out. So there was quite a bit of stress during that period. But we ended up getting all of our loans approved except a couple on the on the first round, and then the second round was even more of a challenge because, again, a lot of people didn't want the money to run out. So we had a lot of applications that were ready to be entered. So us loan officers, I think it started like at 10 o'clock in the morning that we're all sitting at our computer entering these applications, and you'd see that little spinny thing on your computer. And the next thing you'd know, you'd get knocked out and you'd have to start over. So really didn't need to be that much stress. But at the time, you know, we didn't know how long it would, how long the money would last. So, so far, everybody's pretty happy.

Steve Adams, host 12:38

Kudos to you. I know there were a lot of rural banks that just didn't have the loan officer capacity to run through the loans. But it sounds like you had a pretty good team or cadre of people there to help you and work through that.

Tim Wolfe, State Savings Bank 12:52

Yeah, we really did. And again, we made a really good selection with the software, was through Wolters Kluwer, a program called TSoft, so that really gave us a leg up. So it wasn't a cheap investment, but at the end of the day, I think, investment well spent.

Steve Adams, host 13:14

Well, I had a couple of bank presidents that I spoke with said it reminded them of kind of like a run on the bank in the 30s or something. It's just, they were just completely overloaded. So let's shift over, Ryan, and you're a commercial loan officer, one of the people that Tim was just referring to. You were probably working closely with your customers to complete these applications. What, for them, were some of the more difficult portions for them to complete?

Ryan Newton, State Savings Bank 13:43

Yeah, I think some of the areas that caused headaches for our customers, there were a few areas. You know, the first part was what could and couldn't be included in that payroll number to determine the loan amount. And there was a lot of paperwork that these businesses needed to provide to us, you know, W3s, W-2s, 941s, the 940, you know, benefit reports and then state unemployment payments. So, you know, working with the customers and educating them on the documents that we needed to verify, to, you know, to work to that loan number. You know, the second area that, you know, caused a little bit of headache, you know, was the minimal guidance, I thought, on the sole proprietors. You know, their program was started almost a week after the initial PPP program, you know, was opened, and then after their eligibility period opened, that first round of funding ran out right away. So there was definitely a sense of urgency for these small businesses to get their application submitted. But we really didn't have much guidance on what documents we needed to collect from the customer at the time.

Steve Adams, host 14:45

So Ryan, of those who applied and received PPP funds, how many would you say expect to have their loan amounts eventually forgiven? Or at least part of it?

Ryan Newton, State Savings Bank 14:54

Yeah, I would say all 164 of our customers were going into it with the mindset that they'd get some form of forgiveness. You know, and at the end of the day, if there was a part of the balance that wasn't forgiven, you know, these customers were okay, you know, knowing that they were having a low interest rate loan that, you know, helped them, you know, keep the lights on in their business.

Steve Adams, host 15:14

I know some businesses that I spoke with were apprehensive about spending any of it, and just holding that money back until the last possible moment. Did any of your customers share something or a similar story to that with you, Ryan?

Ryan Newton, State Savings Bank 15:29

Yeah, I think there were some, I think that were just hesitant to spend it or, I got a lot of questions that, you know, what's the catch here? And our communication has been to them, you know, through this whole process is that, hey, if you're using it on eligible expenses, you're not going to get dinged for, you know, for, you know, paying your people and using it for the other eligible pieces. So, as long as you can keep good records, there's nothing to be afraid of on that portion.

Steve Adams, host 15:57

I think that's what Dave alluded to, and, you know, keeping track of your records. Some people are better than obviously than others, but just keeping all the paperwork you possibly have is probably really good advice. So Tim, as a bank president, I'm sure it was a relief to get all those PPP applications out the door. How soon after you started this did you start thinking about the pending forgiveness portion of the PPP?

Tim Wolfe, State Savings Bank 16:23

Yeah, actually, you know, we started thinking about it, you know, when we were doing the applications at the time of application. We did a really good job of gathering the documents up front to actually verify that the amount of loan that the customers were applying on the application, that we had the supporting documents to, that we could verify and make sure that the dollar amount was the accurate amount. So you know, we did a really good job of gathering a lot of that information up front, and I think it's going to pay us dividends when we go through this forgiveness process.

Steve Adams, host 17:04

So again, and Dave alluded to this, and gave kind of some explanations as well, now that you've had an opportunity, Tim, to look over those forgiveness applications, what challenges are you seeing, or do you anticipate, when customers go out to complete those applications?

Tim Wolfe, State Savings Bank 17:22

I think the biggest challenge is going to be that a lot of different small businesses have different payroll systems. So number one, for us to understand all the various payroll reports and the formats that are going to be submitted to the bank, for us to review and try to determine, you know, the dates of when the loan was advanced. What pay period gets included that forgiveness period? As you know, the eight weeks started right after the funds were received, and they have broadened that out somewhat to help in that whole process. But the biggest challenge, again, is going to be, you know, reviewing those payroll records, understanding what to look for, if there's one employee that's making more than \$100,000 on an annual basis, that gets caught and backed out. So just again, reviewing all those payroll records, I think will be our biggest challenge.

Steve Adams, host 18:22

Well, it sounds to me like you had a good team and a good game plan going forward on the PPP program. So how are you going to approach these challenges? Again, have you kind of gathered your thoughts, talked to your loan officers, here's how we're going to handle this, who's going to be in charge of this or that type of thing, or how are you going to help the client meet those particular challenge?

Tim Wolfe, State Savings Bank 18:43

Communicate, communicate, communicate. So one of the first things we did when the loan forgiveness application came out, that application was sent out to all of our customers that applied for the PPP loans. So we wanted to make sure that those customers could review that application, start having questions, get those questions answered early. We do have several customers that are actually sending in their payroll information on a weekly basis to us at the present time. You know, they want to, number one, verify that they're using the PPP money the way it's supposed to be, what's supposed to be used. So that's—communicate, communicate, I know that all of our loan officers have spent a lot of hours on the phone call with, you know, consulting, and just trying to walk customers through the various questions that they may or may not have.

Steve Adams, host 19:46

Ryan, I'm guessing here, it's certainly spitballing, but you're a commercial loan officer and I know there's been a lot of hard work and trying to get people on the same page, so to speak, communicate, communicate, communicate. But as you begin to think about the upcoming work, how are you specifically going to advise your customers to get ready for this and to get those applications completed?

Ryan Newton, State Savings Bank 20:10

Yeah, I think Tim alluded to it earlier. It's, you know, I think it's important that the banker and the customer have an open communication throughout this whole, you know, their eight week waiting period. You know, we started to share that forgiveness application with our customers and educate them on the process. You know, I do think it's important for them to start reviewing the application and get an idea of the documents that they're going to need to produce to submit for forgiveness. So it's just really making sure we're getting that document out in front of them, answering any questions prior to, and then hopefully, when it goes to submitting for forgiveness, you know, we have all those hard questions out of the way.

Steve Adams, host 20:47

Well, we certainly have talked about what records they ought to be keeping but are there other things in regards to paperwork, Ryan, that you think they ought to be aware of and have on hand just in case?

Ryan Newton, State Savings Bank 20:59

Yeah, a lot of the paperwork, you know, especially on the payroll side, they're going to need to submit, you know, and that'll look really familiar to what they submitted to us at the time of application for the PPP loan: the payroll number, you know, that'll be supported by payroll reports for the covered period along with employee benefit reports, and state unemployment payments, those reports as well. You know, business owners will need to be sure that they exclude the overage amount for any employees making over 100,000 a year, annually. And I think that number is equating to about \$15,384 for that eight week time period, so just keeping an eye on that. You know, additional documents that weren't necessarily required at the time of application, those would be providing copies of leases that were in place, and lease payments made during that eight week period, utility statements and payment records of those, and then any interest expense incurred for, you know, a mortgage or business-related related debt.

Steve Adams, host 21:56

Terrific. Well, Dave, I want to get right back to you here, and we've heard about what advice they're providing to clients and customers. What are you doing to prepare your clients to get all or a portion of their PPP loan forgiven?

Tim Wolfe, State Savings Bank 22:11

Well, I mean, when the program was initially introduced, our main job as SBDC counselors was to help clients understand the program requirements, and to ensure they're capturing, again, those appropriate financial records, HR documents. And our hope is that by doing that, this would make it easier for the borrower to complete the application and maximize that forgiveness. Now that the forgiveness application document has been provided, it's now our job to help clients understand these new rules, if there were new rules introduced, and be a resource to help them complete the application correctly and provide the necessary assistance to get those documentations put together. So really trying to work with the clients so that when they do, you know, walk into the bank, that they're prepared, and they've got all the necessary information to make that kind of an easy process for the lenders.

Steve Adams, host 23:04

Well, we know that eight week timeframe, David, from the time that you actually got your money, but is there some kind of absolute deadline to have this information submitted by a certain time or a certain date?

Tim Wolfe, State Savings Bank 23:16

Well, that deadline's printed on every page of the of the application document. So it's on the upper right hand corner, it's October 31, 2020. But that being said, I always recommend working with the lender as soon as possible, once that covered period is kind of completed, and that the necessary documents have been all compiled. I mean, you know, it's just probably not going to do the business any good to procrastinate. So as soon as they get that information pulled together and get in front of the lender, that's when we're telling them to get it going.

Steve Adams, host 23:47

Yeah, it's probably not like the Internal Revenue where you can apply for an extension or something on that. So in the upper right hand corner of the document, you said, on every single page. So Dave, do you envision that some types of businesses are going to have more challenges completing this application than others? And could you give me maybe an example or two of which types might struggle a little bit with this?

Dave Biedenbach, SBDC 24:13

Well, I think Ryan maybe alluded to this a little bit: the self-employed independent contractors, sole proprietors, you know, again, there's not a whole lot of clarity in my mind, about what kind of documents they need to provide. And based on the application, it looks like they need to provide some documentation about payments that they made. And again, this would be for sole proprietors, general partners, that kind of a thing. So they're just in a different boat, when it comes to what is considered payroll. So there might be some challenges there, but I don't think there's like a certain type of business or industry that are going to struggle one more than the other. I think it's basically back down to the same thing about, you know, does the business keep good records and up to date financial records? And if they don't, they're going to struggle with this application. They simply just need to have the processes and systems in place to capture and report the required information, so that when they're ready to submit the application, the information is all there. So, you know, those businesses that aren't really good at record-keeping, it's going to be a challenge, because there's a lot of records that need to be provided or documents that need to be provided.

Steve Adams, host 25:25

Oh, it sounds to me if they're feeling uncomfortable there, they might need to look to a professional like an accountant or some other type firm. Ryan, I got a quick question for you, too. I had a general contractor who was a client of mine who subcontracted out all of his work. And so he 1099ed all of his employees, and one of the banks that he went to told me he was not eligible because he 1099ed. Is that not a payroll expense, or am I just getting confused here?

Ryan Newton, State Savings Bank 25:54

Yeah, so that's a really good question. We've actually run into that before. So if he's 1099ing his employees, his employees would be filing a Schedule C tax return, which would then mean, they could apply for the PPP loan on their own and get those proceeds. And so yeah, so that's why, you know, he wouldn't be eligible for that payroll expense. But he would still be able to apply for something, you know, based on his net income alone, just not able to pay the 1099 contractors.

Steve Adams, host 26:25

Yeah, and again, the rules were a little unclear on that. And I think he was confused, as was the bank. But I think it all got worked out. As I understand it, he did get some money out of the PPP program. So Tim, it's not often we have a local bank president on this podcast series. And as you kind of guide your bank through this pandemic, and resolving the economic crisis, how are you approaching lending today? And do you have any advice for Iowa small businesses as they work their way through this mess?

Tim Wolfe, State Savings Bank 26:55

Well, yeah, Steve, another great question. A lot of people think, you know, banks are not small businesses. But you know, State Savings Bank is a small business. And the one thing that we have learned through this whole process is that, you know, we can actually do banking different than what we thought we could do. So you think about closing the number of PPP loans that we closed, again, without being in front of our customers. So with the help of emails, internet, you know, our tellers did yeoman work, because the customers would sign the paperwork, bring it back, drop it off through our drive-throughs. So again, you really have to look at, you know, are there ways to do business different than what you've been doing in the past, and I think you have to look at that as being opportunities. So that's what we've done here at State Savings Bank, and I would encourage, you know, all the small businesses to look outside the box, you know, think differently, because we are all going to get through this. And on the financial side, the key to get through it is having liquidity. And that's the thing that the PPP funding really went a long way to bridge that gap. Because at the end of the day, you know,

everybody's goal is to still be in business when we get back to normal. So I just encourage people to look to do things differently, and look for other opportunities. You know, we have tons and tons of stories of what some of our businesses have done to still be open when we do get back to normal. You think about all the restaurants and serving all those meals and carry-out, and all the thought processes that they've had to go through. So, again, I think at the end of the day, it'll all make us more efficient. And again, it wasn't a ho-hum day at banking. So it was actually pretty exciting, and actually, really kind of invigorating and fun to try to figure out how to do business differently. So I think that will pay dividends for all businesses, and I know it will for State Savings Bank going forward.

Steve Adams, host 29:29

You know, that's terrific, and I think that's another thing we continue to hear as we go through these podcasts is, even businesses like banking, you've had to pivot, you've had to change the business model, you've had to do things differently. But you may be carrying these lessons learned going forward from this point on, isn't that a pretty good assumption there, Tim?

Tim Wolfe, State Savings Bank 29:49

Yeah, so it's very true. You think about, you know, Zoom and communicating and, you know, once we're through these PPPs, and you know, maybe instead hopping in the car to go visit those customers, maybe you're doing it with Zoom meetings. So there's just different ways to communicate. I would say that it is a little bit different communicating with your customer through Zoom or some type of fashion that way, you just don't quite get the personal relationship. But that doesn't mean you still can't do business and provide, you know, the services that your customers are looking for.

Steve Adams, host 30:32

Appreciate that. So Dave, if somebody wanted to get ahold of you, what would be the best way for them to do that?

Dave Biedenbach, SBDC 30:39

I don't know if everybody knows this, but SBDC, it's a national organization. There's nearly 1000 offices across the country. In the state of Iowa, we have 15 offices. And so for those businesses owners looking for some help, I recommend going to our website, it's IowaSBDC.org. And there's a dropdown, I think it's titled Location, to find an office that's near them. I manage our Ames regional office, and I service Boone, Story, Marshall and Hardin Counties. So business owners in those counties can email me directly at dbieden@iastate.edu.

Steve Adams, host 31:22

Terrific, Dave. Thank you. Same question back at you, Tim and Ryan, what's the best way for people to get in contact with you at State Savings Bank?

Ryan Newton, State Savings Bank 31:32

Yeah, if people want to reach out and have questions and pick our brain on some stuff, you know, the best way to reach out to us is through our website: that website is SSB.bank. There's a lot of resources on there, and then we have an info emailing box. So for general questions, they'll get funneled to the appropriate person here at the bank.

Steve Adams, host 31:51

That address again is what, Tim?

Ryan Newton, State Savings Bank 31:57

SSB.bank.

Steve Adams, host 32:00

Seems pretty simple. Well, Dave, Tim and Ryan, hey, I want to thank you so much for being here today, gentlemen—we appreciate your time. If you have any questions about this Back to Business Iowa podcast, please feel free to contact me, Steve Adams at stadams@iastate.edu. This podcast is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. Our justice statement is: This institution is an equal opportunity provider. For the full non-discrimination statement or accommodation inquiries, please go to www.extension.state.edu/diversity/ext. Serving Iowans, #StrongIowa. Let's get back to business, Iowa. Thanks again for listening, see y'all next time.

[music]