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## Deadline to Apply for PPP Loans Extended to August 8; Borrowers Must Carefully Track Use of Loan Proceeds

By [Ivan H. Golden](#)

Eligible businesses will have an additional five weeks to apply for Paycheck Protection Program (“PPP”) loans, after President Trump signed a bill on July 4, 2020, extending the application deadline to August 8, 2020. The deadline otherwise would have expired on June 30, 2020.

The deadline extension is just the latest of many changes to the PPP, which offers low interest, forgivable loans to small- and medium-sized businesses that maintain their payrolls during the COVID-19 pandemic. The program initially attracted overwhelming interest from businesses – so much so that the original \$349 billion allocated to the program was exhausted in less than two weeks. But shifting rules – and fears that businesses could face civil or even criminal penalties for misusing loan funds – caused some potential borrowers to avoid the program and even return their loans.

For borrowers that have already received PPP loans, or that plan to apply before August 8, it is crucial to establish the reasons for applying for the loan and to document the use of loan proceeds. Up to the entire principal amount and all interest accrued on a PPP loan are eligible for forgiveness. To qualify for forgiveness, however, borrowers must account for their use of proceeds; be able to demonstrate that proceeds were used solely for payroll and certain other allowable expenses, such as rent, mortgage interest, and utilities; and be prepared to demonstrate that, as of the date of the loan application, the borrower had a good faith belief the loan was necessary to support its ongoing operations.

In addition to documenting their use of PPP funds, borrowers must keep track of a dizzying number of rule changes. Since the PPP was enacted in March, the period during which borrowers must use loan proceeds has been extended from 8 to 24 weeks; the amount borrowers may spend on non-payroll costs has increased from 25% to 40%; the rules governing who is an eligible borrower and how loan proceeds may be used have changed in myriad ways; and the repayment term for amounts that are not forgiven has increased from 2 years to 5 years.

Moreover, the U.S. Small Business Administration (SBA), which administers the PPP, has published detailed rules outlining when a borrower’s forgiveness amount is automatically reduced as a result of a reduction in employee headcount or reductions in certain employees’ salaries and wages. Those rules also have undergone several changes since the PPP was enacted.

The SBA has said that it will review all forgiveness applications relating to loans in excess of \$2 million. Thus, it is crucial that businesses that borrowed more than \$2 million be able to account for their use of loan proceeds. Businesses that borrowed less than \$2 million are not off the hook, however, as they still must account to their lenders for their use of loan proceeds and may be selected for SBA audits on a case-by-case basis.

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Hahn Loeser's Commercial Services and Restructuring Group is available to assist borrowers with the filing of their Loan Forgiveness Applications, to help borrowers prepare for an SBA audit, and to counsel borrowers on best practices to ensure that their PPP loans qualify for forgiveness to the greatest extent possible. If you have questions, please reach out to your primary contact at Hahn Loeser, or contact one of the attorneys listed below for more information.

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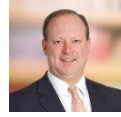
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