
LEGAL UPDATES AND NEWS

The SBA's Paycheck Protection Program Latest Developments (as of May 15, 2020)

On May 13, 2020, the U.S. Small Business Administration ("SBA"), in consultation with the U.S. Department of the Treasury ("Treasury"), updated their Frequently Asked Questions Memorandum (the "Treasury FAQ") concerning the Paycheck Protection Program (the "PPP"). Specifically, the Treasury FAQ: (1) clarifies that a safe harbor is provided regarding the SBA's review of borrower certifications as to the necessity of the PPP loan request (the "PPP certification safe harbor"); and (2) notes that the PPP amnesty provision that would allow borrowers to repay their PPP loans in full without penalty upon a determination that their certification of necessity is no longer valid was extended to May 18, 2020.

The Treasury FAQ clarifies that any borrower, together with its affiliates, that received PPP loans with an original principal amount of \$2 million or less will be deemed to have made the necessity certification in good faith. The SBA previously indicated that it will review PPP loan files in excess of \$2 million (in addition to other loans as appropriate) to ensure PPP loans are limited to eligible borrowers in need. Although the PPP certification safe harbor does not apply to PPP loans greater than \$2 million, the Treasury FAQ confirms that these borrowers may still have an adequate basis for making necessity certifications based on their individual circumstances. If the SBA determines otherwise upon its review, the SBA will seek repayment of the outstanding PPP loan balance and inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays a PPP loan after receiving notification from the SBA, the SBA will not pursue further enforcement action against the borrower.

The Treasury FAQ further clarifies that the SBA's determination concerning the necessity of the PPP loan will not affect the SBA's loan guarantees, which would remain in place regardless if an adverse determination is made.

Provided below is an update on the PPP based upon the current rules and guidance issued by Treasury and the SBA, including (1) the Paycheck Protection Program and Health Care Enhancement Act (the "PPP Enhancement Act"), which authorized an additional \$310 billion in PPP funding on April 23, 2020 ("PPP Phase Two") (2) the four interim final rules issued by the SBA regarding the implementation and administration of the PPP (the "Interim Final Rules"); and (3) the Treasury FAQ. SBA and Treasury have indicated that they will continue to provide guidance on the PPP. Luse Gorman is closely monitoring these developments and will provide updates as appropriate.

I. PPP Enhancement Act

To ensure businesses have access to PPP loans from smaller lenders, the PPP Enhancement Act requires that a portion of the PPP funds issued pursuant to PPP Phase Two (the "New PPP Funds") are allocated to smaller insured depository institutions, federal and state credit unions and "community financial institutions," which includes community development and minority-owned financial institutions. Specifically:

- \$30 billion of the New PPP Funds must be used for PPP loans made by (1) community financial institutions, (2) insured depository institutions with consolidated assets of less than \$10 billion and (3) credit unions with consolidated assets of less than \$10 billion.

- An additional \$30 billion of the New PPP Funds must be used for PPP loans made by insured depository institutions and credit unions with consolidated assets between \$10 billion and \$50 billion.
- The foregoing allocations do not appear to prohibit smaller institutions and community financial institutions from making PPP loans above their respective allocation amounts. Rather, institutions with \$50 billion or more in consolidated assets and non-bank lenders would not have access to \$60 billion of the New PPP Funds.

Due to extraordinary demand for participation in the PPP Phase Two, Treasury and the SBA imposed additional measures for PPP Phase Two, including:

- instituting a maximum dollar amount at 10% of the PPP funding limit that any lending institution will be able to originate, which is exclusive of the \$60 billion of New PPP Funds allocated for smaller institutions and community financial institutions as described above;
- pacing the number of loans processed in the SBA’s E-Tran system for participating lenders;
- implementing operational standards to ensure that participating lenders access PPP funds based on their asset size and that the PPP is operated on a first-come, first-served basis for eligible businesses; and
- allowing lenders that have a large number of SBA-ready PPP loan applications to make a one-time bulk submission of XML files to the SBA through the E-Tran system.

II. General Overview of the PPP

Who are eligible businesses that can apply for a PPP loan?

A business will be eligible to participate in the PPP if it satisfies either: (1) the “Employee Threshold Test,” or (2) the “Small Business Concern Test.”

Employee Threshold Test. A business with a principal place of residence in the U.S and in operation as of February 15, 2020, including tax-exempt nonprofit organizations described in Section 501(c)(3) of the Internal Revenue Code, with 500 or fewer employees (even if the business does not qualify as a “small business concern,” as defined below) can apply for a PPP loan. A business that exceeds the 500-employee threshold is still eligible if it meets the SBA employee-based size standards for the industry in which it operates. The applicable SBA employee-based size standards can be found at www.sba.gov/size. The 500-employee threshold is applied on a per location basis for certain borrowers (e.g., hotels). An “employee” for purposes of this test includes individuals employed on a full-time, part-time or other basis.

Sole proprietors, self-employed individuals and independent contractors are also eligible to apply for a PPP loan if: (1) they were in operation on February 15, 2020; (2) their principal place of residence is in the U.S.; and (3) they filed or will file an IRS Form 1040, Schedule C for 2019. A partner in a partnership should not submit a separate PPP loan application as a self-employed individual. Rather, the partnership itself should file one PPP loan application, and the income of general active partners should be reported as payroll costs, up to \$100,000 annualized.

Small Business Concern Test. A business can apply for a PPP loan (even if it does not satisfy the Employee Threshold Test) as long as it was in operation as of February 15, 2020 and qualifies as a “small business concern” as defined under the Small Business Act. Under current SBA rules, a business qualifies as a “small business concern” if it meets the SBA employee-based and/or revenue-based size standard(s) that corresponds to its primary industry. These industry size standards can be found at www.sba.gov/size.

Alternatively, a business can qualify as a “small business concern” if it meets the SBA’s “alternative size standard” if both of the following tests are met as of March 27, 2020: (1) maximum tangible net worth of the business is not more than \$15 million; and (2) the average net income after Federal income taxes

(excluding any carry-over losses) of the business for the two full fiscal years before the date of the PPP application is not more than \$5 million.

In evaluating an applicant's eligibility under either test, a lender may consider whether a seasonal business was in operation on February 15, 2020 or for an eight-week period between February 15, 2019 and June 30, 2019.

A legal gaming business satisfying either eligibility test can apply for a PPP loan. However, hedge funds and private equity firms are ineligible to receive a PPP loan. Furthermore, if an eligible business (or its owner) is the debtor in a bankruptcy proceeding, either at the time it submits the PPP application or at any time before the PPP loan is disbursed, the eligible business is ineligible to receive a PPP loan.

Do the SBA's affiliation rules apply in determining whether a business is eligible to participate in the PPP?

Yes. In determining whether a business satisfies the Employee Threshold Test or the Small Business Concern Test, the SBA's affiliation rules would apply to all businesses applying for a PPP loan except for those expressly excluded by the CARES Act. The excluded businesses are: (1) businesses in the food and hotel industry; (2) businesses operating as a franchise; and (3) businesses receiving assistance from SBA-licensed small business investment companies.

As a result, each affiliate of the applicant (unless an excluded business) must be considered in determining whether the Employee Threshold Test or the Small Business Concern Test is satisfied. Entities are considered SBA affiliates based on certain factors, including 50% or more equity ownership, overlapping management and identity of interest. However, for purposes of the PPP, participation by a business in an employee stock ownership plan ("ESOP") does not result in an affiliation between the business and the ESOP.

Could a business that satisfies either the Employee Threshold Test or the Small Business Concern Test be disqualified from participating in the PPP?

Yes. A business satisfying the Employee Threshold Test or the Small Business Concern Test above would nonetheless be disqualified from participating in the PPP if it is either: (1) a household employer; (2) engaged in any illegal activity under federal, state or local law (this includes marijuana-related businesses, subject to certain exceptions); (3) has a 20% or more owner who is incarcerated, subject to criminal indictment or has been convicted of a felony within the last five years; or (4) defaulted on an SBA or federal loan or guarantee and caused a loss to the government in the last seven years. Additionally, ineligible businesses set forth in 13 CFR Section 120.110 are not eligible for PPP loans.

Are financial institutions or their affiliates eligible to apply for a PPP loan?

Financial Institutions. No. Under current SBA rules, financial businesses, such as banks and finance companies, are ineligible for SBA loans. Accordingly, neither banks, credit unions nor any other lending institutions are eligible to receive a PPP loan because of this restriction.

Corporate Affiliates of Financial Institutions. Subject to additional guidance and based upon current SBA affiliation rules, even if a corporate affiliate of a financial institution is not engaged in the business of lending and qualifies as a "small business concern," it may nonetheless be ineligible to receive a PPP loan from an unaffiliated lender due its affiliation with an ineligible business (i.e., the parent financial institution).

A practical example of the foregoing would be an insurance agency that is 51% owned by a bank and 49% owned by individual agents that meets the SBA revenue tests. Despite otherwise qualifying for the PPP loan, the insurance agency would not be eligible to receive a PPP loan from an unaffiliated lender because a bank controls 50% or more of its voting power.

Regardless of the SBA affiliation rules, current SBA rules prohibit a lender from originating a loan (which would include a PPP loan) to a business in which the lender has any equity interest.

Is the business in which a financial institution director, officer, key employee or 30% shareholder has an equity interest eligible to receive a PPP loan from his or her own financial institution?

Outside Directors and Less Than 30% Shareholders. Yes. An eligible business that is owned (in whole or in part) by any outside director or a less than 30% shareholder (including the spouse, child or other relative of such director or shareholder) of the PPP lender may apply for a PPP loan through the lender with which such director or shareholder is associated. As noted above, such eligible businesses may not receive any favoritism regarding processing time or prioritization of their PPP applications and must be treated the same as other similarly situated customers.

Officers and Key Employees. No. An eligible business that is owned (in whole or in part) by an officer or key employee (or by the spouse or child of such officer or key employee) may not obtain a PPP loan through the lender with which the officer/key employee is associated. However, such eligible business may obtain a PPP loan from a different lender. This restriction applies to an officer or key employee who also serves as a director of the PPP lender.

How much can an eligible business borrow under the PPP?

An eligible business can apply for a PPP loan up to the greater of: (1) 2.5 times its average monthly “payroll costs;” or (2) \$10.0 million. Average monthly payroll costs would be determined during the 12-month period before the date the PPP loan is made. However, the PPP Borrower Application Form (SBA Form 2483, available [here](#)) (the “Borrower Application Form”) provides alternative time periods to determine average monthly payroll costs for existing, new and seasonal businesses. Notwithstanding such inconsistency, the Treasury FAQ confirmed that following the instructions in the Borrower Application Form to calculate payroll costs is appropriate.

Payroll costs for the maximum PPP loan calculation (“Payroll Costs”) include: (1) salary, wages, commissions or tips, up to \$100,000 on an annualized basis for each employee; (2) for individuals with self-employment income, their 2019 net profit amount as reported on their IRS Form 1040, Schedule C for 2019 (“2019 net profit”); (3) employee benefits, including paid time off, allowance for separation or dismissal, health insurance premiums and retirement benefits; and (4) state and local taxes assessed on compensation (excluding federal employment taxes, such as the employer and employee-portion of FICA taxes, imposed or withheld between February 15, 2020 and June 30, 2020). Only the employee-side federal payroll taxes should be considered Payroll Costs during the applicable time period. Employer-side payroll taxes would be excluded.

The applicant may not include amounts paid to independent contractors or sole proprietors in determining payroll costs since independent contractors and sole proprietors have the ability to apply for a PPP loan on their own. For sole proprietor or independent contractor applicants, Payroll Costs include their wages, commissions, income or net profit from self-employment, up to \$100,000 on an annualized basis.

The Treasury FAQ confirms that the exclusion of compensation in excess of \$100,000 only applies to cash compensation, not to non-cash benefits, including (1) employer contributions to defined-benefit or defined-contribution retirement plans; (2) payment for provision of employee benefits consisting of group health care, including insurance premiums; and (3) payment of state and local taxes assessed on compensation of employees.

What are the basic PPP loan terms, including loan forgiveness?

General Terms. PPP loans will have: (1) an interest rate of 1.0%; (2) a two-year loan term to maturity; and (3) principal and interest payments deferred for six months from the date of disbursement; however, interest will continue to accrue over the deferred period.

The SBA will guarantee 100% of the PPP loans made to eligible borrowers.

Borrowers are not required to pledge any collateral or provide any personal guarantee in order to obtain their PPP loans and no prepayment penalties or fees may be charged if PPP loans are repaid earlier than the two-year maturity date.

Use of Loan Proceeds. Borrowers must use the PPP loan proceeds for: (1) the Payroll Costs; and (2) other authorized non-payroll costs (the “Authorized Non-Payroll Costs”), including: (a) costs related to group health benefits during periods of paid sick, medical or family leave, and insurance premiums; (b) mortgage interest payments (but not mortgage prepayments or principal payments); (c) rent payments; (d) utility payments; (e) interest on debt incurred prior to February 15, 2020; and (f) refinancing of SBA Emergency Industry Disaster Loans that are made between January 31, 2020 and April 30, 2020. At least 75% of the PPP loan proceeds must be used for Payroll Costs.

If the PPP loan proceeds are used for unauthorized purposes, the loan will not be forgiven (as discussed below) and the SBA will direct the borrower to repay the loan. If the proceeds are used knowingly for unauthorized purposes, the borrower, including its shareholders, members or partners for their unauthorized use, may be subject to additional liability.

Loan Forgiveness. The entire principal amount of the borrower’s PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained. The loan forgiveness amount is equal to the sum of all Payroll Costs and Authorized Non-Payroll Costs incurred by the borrower during the eight-week cover period following the date the PPP loan proceeds are disbursed, provided, however, that not more than 25% of the loan forgiveness amount may be attributable to Authorized Non-Payroll Costs (or, in other words, at least 75% of the loan forgiveness amount must be attributable to Payroll Costs). For self-employed individuals, their loan forgiveness amount is capped at an amount equal to eight weeks’ worth of 2019 net profit (excluding any qualified sick leave that is claimed under the Families First Coronavirus Response Act).

It is still unclear as to how compensation or employee reductions during the eight-week cover period would reduce the loan forgiveness amount, which we anticipate will be addressed by the SBA. The SBA, however, clarified that if a laid-off employee that a borrower offered to rehire (for the same salary/wages and same number hours) declines such offer, that will not cause the borrower’s PPP loan forgiveness amount to be reduced.

Borrowers seeking loan forgiveness must submit an application to their lenders and include sufficient documentation verifying their Payroll Costs and Authorized Non-Payroll Costs for the eight-week cover period. Borrowers with employees must submit their Form 941 and state quarterly wage unemployment insurance tax reporting forms or equivalent payroll processor records that best correspond to the eight-week cover period. If PPP loan proceeds are used for Authorized Non-Payroll Costs, borrowers must also submit evidence of business rent, business mortgage interest payments and business utility payments made during the eight-week cover period. Lenders must make their determination on loan forgiveness within 60 days after receipt of the application. Any loan forgiveness amount would be excluded from the borrower’s gross income for IRS purposes.

The borrower’s remaining PPP loan balance, if any, after reduction of the loan forgiveness amount would remain subject to the terms and conditions described above.

What is the borrower application process for obtaining a PPP loan?

Eligible businesses may apply for PPP loans on a first-come, first-served basis, which commenced on April 3, 2020. The last day to apply is June 30, 2020 or, if earlier, until funds made available for the PPP have been exhausted. No borrower may receive more than one PPP loan.

To apply, an eligible business must submit: (1) the Borrower Application Form (which is permitted to be signed by a single individual who is authorized to sign on behalf of the borrower) and (2) supporting documentation to establish eligibility and the PPP loan amount, such as payroll tax processor records, payroll tax filings or Form 1099-MISC or income and expenses for a sole proprietorship. Payroll documentation provided by the payroll provider that indicates the amount of wages and payroll taxes reported to the IRS by the payroll provider for the applicant’s employees will be considered acceptable PPP loan payroll documentation. An applicant that satisfies the Small Business Concern Test must truthfully attest to its eligibility on the Borrower Application Form.

The applicant must also make good faith certifications in the Borrower Application Form (the “Borrower Certifications”), including that: (1) it was in operation on February 15, 2020 and had employees and independent contractors that received taxable compensation; (2) the current economic uncertainty makes the PPP loan necessary to support ongoing operations, taking into consideration its current business activity and ability to access other sources of liquidity; (3) the PPP loan proceeds will be used for Payroll Costs and Authorized Non-Payroll Costs; and (4) all supporting documentation provided is true and accurate in all material respects.

The SBA wants applicants to seriously consider their certification that the PPP loan was necessary, taking into account their current business activity and ability to access other sources of liquidity in a manner that is not significantly detrimental to their business. As a result, applicants with a strong business and access to alternative sources of liquidity should be prepared to justify to the SBA, upon request, their determination that the PPP loan was necessary. Moreover, to further ensure PPP loans are limited to eligible borrowers in need, the SBA will review individual PPP loan files in excess of \$2 million (in addition to other loans as appropriate) following the lender’s submission of the borrower’s loan forgiveness application to the SBA. If the SBA determines that such borrower’s necessity certification is not adequate, the SBA will seek repayment of the outstanding PPP loan balance and inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the PPP loan after receiving notification from the SBA, the SBA will not pursue administrative enforcement or referrals to other agencies. The SBA’s determination concerning the necessity of the PPP loan will not affect the SBA’s loan guarantees, which would remain in place regardless if an adverse determination is made.

Any borrower, together with its affiliates, that received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the necessity certification in good faith.

Notwithstanding the foregoing, if a borrower determines that its PPP loan (received based on an application submitted prior to April 23, 2020) is not “necessary,” the borrower can return the PPP funds without penalty if the PPP loan is fully repaid by May 18, 2020.

When will the PPP loan proceeds be disbursed to the borrower?

The PPP loan proceeds must be disbursed to the borrower no later than 10 calendar days from the date of loan approval.

III. Aspects of the PPP Significant to Lenders

Who is eligible to be a lender under the PPP?

All SBA 7(a) lenders are automatically approved to make PPP loans.

Federally insured depository institutions and federally insured credit unions not currently approved to be SBA 7(a) lenders are qualified to participate in the PPP, so long as there is no pending enforcement action addressing unsafe or unsound lending practices or troubled conditioned designation from their primary federal regulator. These institutions will be enrolled in the PPP upon completing the CARES Act Section 1102 Lender Agreement (SBA Form 3506, which is available [here](#)) and the Certificate of Incumbency of Officers (FS Form 1014, which is available [here](#)) and sending the forms via email to the SBA at DelegatedAuthority@sba.gov.

What underwriting is required?

Underwriting Obligations. The lender’s underwriting obligations under the PPP are limited to: (1) reviewing the Borrower Application Form; (2) confirming receipt of the Borrower Certifications and supporting documentation to establish eligibility and how the PPP loan was calculated; and (3) following applicable BSA protocols. For depository institutions and credit unions, PPP loans made to existing customers will not require: (1) re-verification under applicable BSA requirements; or (2) the collection of beneficial ownership information on an existing customer to the extent it has not been provided, unless otherwise indicated by the institution’s risk-based approach to BSA compliance. However, PPP loans to non-existing customers will need to go through the institution’s BSA/AML onboarding process.

In evaluating the applicant's eligibility, the lender is not required to consider whether the applicant is unable to obtain credit elsewhere pursuant to the SBA's credit elsewhere test. The Treasury FAQ also clarifies that lenders are not required to make an independent determination whether the SBA's affiliation rules were applied correctly by the applicant.

Lenders are also permitted to use their own online systems and a form they establish that requests the same information (using the same language) as the Borrower Application Form. However, Lenders are still required to send the data to the SBA using the SBA's interface.

Lender Reliance and Limited Liability. The SBA will allow lenders to rely on Borrower Certifications to determine eligibility and use of loan proceeds and supporting documentation to determine the borrower's PPP loan amount and eligibility for loan forgiveness. Although lenders must comply with its PPP underwriting obligations, they will not be liable for the borrower's failure to comply with PPP requirements.

Processing Loan Forgiveness. Lenders do not need to conduct any loan forgiveness verification if the borrower submits documentation supporting its request and attests that it has accurately verified its eligible payments.

SBA Form 2484. Lenders must also submit a PPP Lender's Application for 7(a) Loan Guaranty (SBA Form 2484, available [here](#)) electronically to the SBA with respect to each PPP loan made, which includes a certification that the underwriting obligations above were satisfied. Lenders do not need separate SBA authorization for the SBA to guarantee a PPP loan so long as the SBA Form 2484 related to the PPP loan made has been executed.

Promissory Note. Lenders may use their own promissory note or the SBA's form of promissory note, which is available [here](#). Lenders may include in their promissory notes for PPP loans any terms and conditions, including relating to amortization and disclosure, that are not inconsistent with the CARES Act, the PPP interim final rules and SBA Form 2484.

Scanned Copies of Documents or E-Signatures. Lenders may accept scanned copies of signed loan applications and documents containing information and certifications required by SBA Form 2483 and the PPP promissory note. Lenders may also accept any form of E-consent or E-signature that satisfies the requirements of the Electronic Signatures in Global and National Commerce Act.

Will Lenders receive processing fees for making PPP loans?

Yes. Processing fees will be paid by the SBA to a lender within five days after the disbursement of the PPP loan. The processing fee amount will be based on the balance of the PPP loan at the time of disbursement, calculated as follows: (1) 5.0% for loans \$350,000 and under; (2) 3.0% for loans greater than \$350,000 to \$2 million; and (3) 1.0% for loans greater than \$2 million.

In addition, lenders will not owe the SBA any up-front guarantee fee, annual service fee or subsidiary recoupment fee. If an agent is hired to assist a borrower, agent fees must be paid by the lender out of the fees the lender receives from the SBA. Agents may not collect fees from the borrower or collect a portion of the PPP loan proceeds. The total amount that an agent may collect from the lender related to the PPP loan may not exceed: (1) 1.0% for loans \$350,000 and under; (2) 0.5% for loans greater than \$350,000 to \$2 million; and (3) 0.25% for loans greater than \$2 million.

What is the regulatory capital treatment of a PPP loan?

PPP loans have a risk weight of zero due to the 100% unconditional guarantee of the payment of principal and interest provided by the SBA.

What is the treatment under GAAP of a modified PPP loan?

If a PPP loan is modified due to the COVID-19 pandemic, the financial institution may elect to suspend GAAP for loan modifications that would otherwise result in the modified PPP loan being considered a troubled debt restructuring.

Can PPP loans be sold in the secondary market or repurchased by the SBA?

A PPP loan may be sold in the secondary market after the loan is fully disbursed at a premium or a discount to par value. No fee will be payable to the SBA for any guarantee sold in the secondary market.

To better ensure that financial institutions will have sufficient liquidity when participating in the PPP, the lender may request that the SBA purchase the expected loan forgiveness amount of the PPP loan (or pool of PPP loans) in advance of any loan forgiveness request by the borrower(s). Specifically, this request may be made by the lender to the SBA at the end of week seven of the eight-week cover period following the date the PPP loan is made.

For the expected loan forgiveness amount to be purchased, the lender must submit a detailed report to the SBA setting forth the expected loan forgiveness amount that includes: (1) the Borrower and Lender Application Forms, including any supporting documentation; (2) a detailed narrative explaining the assumptions and information used to calculate the expected loan forgiveness amount, the basis for those assumptions, alternative assumptions considered and why alternative assumptions were not used; (3) any information obtained from the borrower since the PPP loan was disbursed that the lender used to determine the expected loan forgiveness amount, including documentation to apply for loan forgiveness; and (4) any additional information the SBA may require. If the report demonstrates that the expected loan forgiveness amount is reasonable, the SBA will make the purchase within 15 days thereafter.

We anticipate that the SBA will clarify what happens if the report fails to demonstrate reasonableness, particularly since the lender is relying primarily on information and attestations provided by the borrower in preparing the report.

Can participating interests in PPP loans be sold?

Yes. Lenders may sell participating interests (up to 100% of the principal balance) in the PPP loan to other participating lenders without the SBA's prior written consent. However, prior written notice of any participating interest sale must be provided to the SBA at the following email address: PPPLoanParticipating@sba.gov. The originating lender would be the party responsible to the SBA with respect to all servicing actions, including requests for loan forgiveness, and eligible for the SBA guarantee purchase of a PPP loan.

Do the SBA's rules for loan pledges apply to PPP loans pledged for borrowings from a Federal Reserve Bank or advances by a Federal Home Loan Bank?

No. Current SBA rules provide that a pledge of a 7(a) loan (which would include a PPP loan) to the Federal Reserve Bank or the Federal Home Loan Bank does not require the SBA's prior written consent or notice to the SBA. The Interim Final Rules clarify that the SBA's other requirements for loan pledges, such as having to approve loan documents or requiring a multi-party agreement, would also not apply to PPP loans pledged for borrowings from a Federal Reserve Bank or advances by a Federal Home Loan Bank.

May a participating financial institution limit PPP lending to existing customers only or impose other conditions on a PPP loan borrower?

Yes. Neither the CARES Act nor any other PPP supplemental guidance prevents financial institutions from limiting PPP participation to existing customers only or imposing other conditions on a borrower obtaining a PPP loan (other than those being applied in a non-discriminatory manner in compliance with applicable laws). Due to several concerns cited by financial institutions following the launch of the PPP, such as BSA/AML concerns, the volume of applications and expedited application process, uncertainty over the conditions for loan forgiveness and a potentially weak secondary market, it is expected that many participating institutions will prioritize eligibility for their PPP lending to existing customer relationships, limit the amount of loans they will originate and impose conditions on borrowers obtaining a PPP loan.

In light of the recent class action lawsuits filed against financial institutions (and related criticism by members of Congress) for placing restrictions on and prioritizing access to their PPP programs, lenders should be cognizant of potential scrutiny or discrimination claims when designing any PPP participation

limitations, exclusions and other conditions, even though there are no such restrictions under the CARES Act or any other PPP supplemental guidance upon doing so for legitimate business reasons.

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