

# TEXAS SECURITY

BANK



TO: Texas Security Bank PPP Clients

SUBJECT: SBA "PPP Second Draw"

What a year this has been for all Americans and particularly for those of us navigating our companies through the realities of COVID. We can all join together in turning the page from 2020 to a 2021 full of hope and promise. At Texas Security Bank we have been inspired daily by the resilience and resourcefulness of all of you Champions of Free Enterprise.

As Congress has now passed a new economic stimulus package, we want to bring you some of the early details that we are receiving. Please bear in mind though that **the SBA will now begin to develop its rules, processes and applications, so it could still be 2 or 3 weeks before these new programs open to applications.** We will do our best to keep you informed along the way.

Here is a high-level summary of some of the PPP Second Draw Provisions:

## **Section 11: Paycheck Protection Program Second Draw Loans.**

- Creates a second loan from the Paycheck Protection Program, called a "PPP Second Draw" for smaller and harder-hit businesses, with a maximum amount of \$2 million.
- Eligibility. In order to receive a Paycheck Protection Program loan under this section, eligible entities must:
  - **Employ not more than 300 employees;**
  - **Have used or will use the full amount of their first PPP; and**
  - **Demonstrate at least a 25 percent reduction in gross receipts in the first, second, third or fourth quarter of 2020 relative to the same 2019 quarter. *Applications submitted on or after January 1, 2021 are eligible to utilize the gross receipts from the fourth quarter of 2020.***
- Loan terms: In general, **borrowers may receive a loan amount of up to 2.5X the average monthly payroll costs in the one year prior to the loan or the calendar year. No loan can be greater than \$2 million.**
  - New borrowers may also receive loans of up to 2.5X the sum of their average monthly payroll costs.
  - **Entities in industries assigned to NAICS code 72 (Accommodations and Food Services) may receive loans of up to 3.5X average monthly payroll costs.**
  - Businesses with multiple locations that are eligible entities under the initial PPP requirements may employ not more than 300 employees per physical location.
  - Waiver of affiliation rules that applied during initial PPP loans apply to a second loan.
  - An eligible entity may only receive one PPP second draw loan.

- Loan forgiveness. Borrowers of a PPP second draw loan would be eligible for loan forgiveness equal to the sum of their payroll costs, as well as covered mortgage, rent, and utility payments, covered operations expenditures, covered property damage costs, covered supplier costs, and covered worker protection expenditures incurred during the covered period. The 60/40 cost allocation between payroll and nonpayroll costs in order to receive full forgiveness will continue to apply.

Additionally, for those **borrowers who have outstanding SBA 7a and SBA 504** loans there is an extension of the Debt Relief Program for three months beginning in February.

**Resumes the payment of principal and interest (P&I) on small business loans guaranteed by the SBA under the 7(a), 504 and Microloan programs, established under the CARES Act.**

- All borrowers with qualifying loans approved by the SBA prior to the CARES Act will receive an additional three months of P&I, starting in February 2021. Going forward, those payments will be capped at \$9,000 per borrower per month.
- After the three-month period described above, borrowers considered to be underserved—namely the smallest or hardest-hit by the pandemic—will receive an additional five months of P&I payments, also capped at \$9,000 per borrower per month. They include:
  - **Borrowers with any 7(a) or 504 loan in the hardest-hit sectors, as measured by the severity of sector-wide job losses since the start of the pandemic. They include food service and accommodation; arts, entertainment and recreation; education; and laundry and personal care services.**
- SBA payments of P&I on the first 6 months of newly approved loans will resume for all loans approved between February 1 and September 30, 2021, also capped at \$9,000 per month.

Finally, the new legislation **eliminates the deduction of EIDL Grant amounts from PPP forgiveness**, both for the Second Draw loans and retroactively to the first loan. Although we do not yet know the mechanics of how it will work, we do expect that the SBA will adjust its previous payments to cover the EIDL amounts which have been deducted from forgiveness payments.

As mentioned earlier, there is still a lot of rule and process making that the SBA needs to complete before we are ready to accept new applications. Please watch our website at [TexasSecurityBank.com](https://TexasSecurityBank.com) where we will post additional information as we receive it.

From the team here at Texas Security Bank, we wish you all a very Happy (and “normal”) New Year.