

# CONSIDERATIONS IN MANAGING PPP LOAN PROCEEDS

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Updated June 12, 2020

The Small Business Administration (SBA) is expected to issue further guidelines on calculations of the loan forgiveness aspect of Paycheck Protection Program or PPP loans. Be sure to review these carefully with your advisors to optimize the loan forgiveness opportunity.



As we enter the next phase of managing through the COVID-19 crisis, our clients are faced with many new issues and challenges some of which are very difficult to predict. Additionally, there seems to be continued uncertainty and variability in terms of accurately forecasting the rate at which patients will return for elective procedures. The good news, however, is that the Paycheck Protection Program Flexibility Act of 2020 was signed into law on Friday, June 5<sup>th</sup> and makes full loan forgiveness more easily achievable.

For those who have received or will be receiving PPP funds, attention shifts to how best to manage the cash infusion. Some have indicated plans to more aggressively re-hire staff or increase work hours for those employees previously furloughed, largely due to the opportunity to secure a greater amount of loan forgiveness on their PPP credit facility.

Clients may want to consider a more deliberate approach and focus on preserving cash until there is greater clarity on the path forward.

## In terms of managing PPP loan proceeds, here are a few ideas for clients to consider:

1. Some PPP lenders are likely to require clients to set-up a separate account for receipt and disbursement of loan proceeds. If not required, I suggest clients set up a separate account (for each affiliated entity that may have applied for and received loan proceeds) to manage disbursements. This will facilitate the process of calculating the eligible loan forgiveness amounts. Even though customers will not be disbursing payroll directly from this account, they can certainly transfer amounts needed for payroll from this account and thereby have greater control and visibility over the use of loan proceeds.
2. The disbursements should be categorized in a way that conforms with the “allowable” expenses eligible for loan forgiveness under the PPP. These include payroll expenses as defined in the CARES Act, facility rent, utilities, and mortgage interest. (More details are available in the [Interim Final Rule](#) publication.)
3. I also recommend clients track and calculate FTE counts for the measurement period following the date of loan issuance. This number will be compared with historical or pre-COVID-19 FTE counts in determining the amount of loan forgiveness. Use the 2,080 annual hours metric in determining FTE count. Be sure to include all employees (full and part-time), including associate and owner providers, in the FTE count. Do not include independent contractors.
4. It will be important for clients to track employee salary reductions in excess of 25% as compared with historical pay levels. This is another important data point that will be necessary in calculating any downward adjustment to the amount of loan forgiveness.



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5. Clients need to stay connected with furloughed employees or former employees they plan to invite back in the coming weeks and months.
6. Clients need to monitor the impact of ongoing personnel changes on overall cash flow and anticipated cash needs. (BSM's 13-week cash flow analyzer tool can assist with this process. Download the resource on [BSM Consulting's COVID-19 Resources](#) page.)
7. Clients should be cautious not to necessarily rehire staff too soon or bring them back from furloughs just to optimize the loan forgiveness opportunity.
8. Clients need to remain focused on safeguarding cash. The road back to pre-COVID-19 business levels is likely to be bumpy and hard to predict.
9. Remember, to the extent a client does not consume PPP loan proceeds, they will always have the flexibility and opportunity to defer the use of loan proceeds and/or pre-pay the loan, without penalty, in future months.
10. If a client decides to rehire or recall some staff members (who were either furloughed or laid off), I suggest they focus on prioritizing the recall of what are considered essential or core team members. Criteria for core team members may include:
  - Adaptability to change
  - Flexibility to assume different roles especially within the context of "re-entry"
  - Long-term commitment and value to the business
  - Loyalty to the business

**A focus on preserving cash together with careful consideration on use of PPP loan proceeds is necessary for our clients to continue to navigate the ongoing crisis. Once the SBA issues updated guidelines on the calculation of loan forgiveness, work with your advisors to evaluate optimization of your loan forgiveness opportunity.**



*For additional resources to aid practices during this challenging time, visit <https://bsmconsulting.com/coronavirus-BSM-resources> or call us at 800-832-0609.*