

Newly Released

Paycheck Protection Program (PPP) Loans—Second Draw

Congress recently passed a COVID-19 relief package that, among many other initiatives, reauthorizes and modifies the paycheck protection program (PPP). These PPP loans were designed to be forgiven if program requirements are met. Forgiven loan proceeds are excluded from gross income, and the expenses paid with PPP loan proceeds remain deductible. Below we discuss the second draw loan availability and secondly how they apply to farmers & ranchers:

Second Draw Loans

Second round PPP loans are available to borrowers that previously received a First Draw Loan and have used or will use the full amount of the initial PPP loan for authorized purposes on or before the expected date of disbursement of the Second Draw PPP Loan.

A business is eligible for a Second Draw PPP Loan only if:

- it received a First Draw Loan
- it experienced a GROSS business revenue reduction of 25 percent or more in any one quarter of 2020 compared to the same quarter in 2019

The maximum loan amount for a Second Draw Loan is equal to 2 ½ times the borrowers average monthly payroll costs (can use 2019 or 2020—whichever results in a higher loan amount). “Payroll costs” has the same definition for Second Draw loans as it does for First Draw loans.

Second Draw PPP Loans are eligible for loan forgiveness on the same terms and conditions as First Draw PPP Loans. SBA has stated that additional forgiveness guidance will be provided at a later date.

Farmers and Ranchers

Rather than calculating the PPP loan amount using net farm income as was used originally in 2020, the new law directs farmers to use gross farm income, as shown on line 9 of Schedule F. The gross farm income used for the calculation is capped at \$100,000 but a farmer or rancher with any amount of gross income can apply: Farmers can use this new calculation to:

- (1) request a First Draw loan if they did not receive one in 2020 (now based on gross revenue rather than net profit which disqualified many farmers and ranchers in 2020)
- (2) request an increase to a First Draw loan that they received in 2020 if forgiveness for that loan has not been granted, **OR**
- (3) request a Second Draw loan if they received a First Draw loan and can show the 25% drop in gross business revenue for any one quarter in 2020 compared to 2019

At this time, we are providing guidance based off our understanding. There are still many details that have not been made clear at this time. If you have questions, please contact your bank as they will process your application.

Thanks,

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