PPP Customers –

There are currently two options available to PPP customers concerning deferment of principal and interest payments and allocation of loan proceeds advanced under the program. These options are detailed below. In reviewing this information, please recall that the original loan documents were based on a 24-month maturity and that maturity date has not changed. Use of PPP loan proceeds remains limited to payroll expense, rent expense, interest expense and utilities expense.

Option One

The original guidelines for the PPP called for a six-month deferral of payments. The timeline for that arrangement included an eight-week Covered Period during which the loan proceeds could be spent according to the 75% payroll/25% other eligible expense ratio. At the conclusion of the Covered Period, an application was to be completed requesting forgiveness of the loan balance. The bank would then process the application and forward to the SBA for approval in a process estimated to take five months. Under this scenario, the forgiveness process would be completed before the first payment came due on the seven-month anniversary of the original loan closing. Any unforgiven loan proceeds would then be placed on an 18-month amortization at a 1% interest rate. This option remains available to PPP borrowers.

Option Two

Recent changes to the PPP legislation authorized a second deferment schedule which is available to PPP borrowers. These changes authorized a 24-week Covered Period during which loan proceeds can be spent according to a 60% payroll/40% other eligible expense ratio. At the conclusion of the Covered Period, the borrower must make application to the bank for forgiveness of the loan balance. It is estimated that it will take five months to process the forgiveness applications. For our PPP customers, the Covered Period would end in mid-October to mid-November depending on the loan closing date and forgiveness would happen in mid-March to mid-April 2021. Principal and interest payments would be deferred until the conclusion of the forgiveness process. Any unforgiven loan balance would then be amortized over the estimated 13 months remaining in the original 24-month loan maturity at a 1% interest rate.

The bank is encouraging borrowers who have spent funds according to the original agreement (Option One) to go ahead and submit applications for forgiveness. This option offers the advantages of:

- Elimination of Cares Act restrictions on hiring and maintaining FTE employment levels after the eight-week Covered Period.
- Forgiveness will occur sooner.
- Not vulnerable to future potential changes in the program.
- No need to re-sign loan documentation.
- Longer amortization period for unforgiven balances.

If this is the option that you want to select, please let us know and we will forward a Forgiveness Application to you. We will begin the forgiveness process upon receipt of the completed application.

For those borrowers who need additional time to use the loan proceeds or would benefit from the revised use of funds ratio available in Option Two, a modification to the original loan documentation will need to be executed. If this is your preference, please let us know so the necessary documentation can be prepared and arrangements made for signatures.

Lastly, the Bank is aware of other changes authorized by the recent revisions to the PPP. These additional changes applied only to those loans closed after June 3, 2020 passage of the legislation which excludes the loans the bank has closed under the program.

- The Citizens Bank PPP Team