



SBA 7(a) Paycheck Protection Program Frequently Asked Questions

Q1: Who is Eligible for the SBA 7(a) Paycheck Protection Program Loan?

Paycheck Protection Program (“PPP”) loans are available to eligible small businesses and certain individuals that are experiencing financial hardship due to the COVID-19 pandemic and its economic consequences.

Per the Small Business Administration (“SBA”) you are eligible if you are:

- A small business with 500 or fewer employees (full-time, part-time, and any other status of employees is included) whose principal place of residence is the United States
- A small business that operates in a certain industry and meets the SBA employee-based size standard for that industry
- A 501(c)(3) nonprofit organization with 500 or fewer employees
- An individual who operates as a sole proprietor
- An individual who operates as an independent contractor
- A Tribal business concern that meets the SBA size standard
- A 501(c)(19) Veterans Organization that meets the SBA size standard
- One of the above AND were in operations on February 15, 2020 and either had employees for whom you paid salaries and payroll taxes, or paid independent contractors, as reported on a Form 1099-MISC
- An individual who is self-employed who regularly carries on any trade or business, and was in operation on February 15, 2020

In addition, some special rules may make you eligible:

- If you are in the accommodation and food services sector (NAICS 72), the 500-employee rule is applied on a per physical location basis
- If you are operating as a franchise or receive financial assistance from an approved Small Business Investment Company the normal affiliation rules do not apply

Q2: How can the funds be used?

The SBA permits several uses of funds under this program, and those seeking funds under the program will need to certify they will be used for the allowable purposes. Those purposes include:

- Payroll costs (see "How much can I borrow?")
- Costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums
- Payments of interest on any mortgage obligations*
- Payments of interest on any other debt obligations*

The Paycheck Protection Program (“PPP”) funds are limited by the CARES Act and Capital Bank, N.A. (“Bank”) makes no representations that it will agree to process your request for a PPP loan nor will the Bank be responsible in the event you do not receive a PPP loan for any reason. Further, the Bank reserves the right to prioritize any requests for PPP loans in their sole discretion and the Bank’s receipt of any request, pre-application or application does not constitute an agreement by the Bank to process such request, pre-application or application.



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- Rent*
- Utilities*

* Must be in force prior to February 15, 2020 to be allowable.

Funds used for allowable purposes will be eligible for forgiveness once proper documentation of the expenses has been provided to the lender. For payments of existing debt allowed under this program, only the interest portion of those payments will be eligible for forgiveness. Please note that the government is now advising that because of high participation, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs. **

**Loan forgiveness will be subject to verification of proper documentation, as determined by the SBA standards. The SBA will ultimately decide the amount forgiven; the Bank cannot determine that amount.

Q3: How much can I borrow?

Loans can be up to 2.5 times (250%) the borrower's average monthly payroll costs during the one-year period prior to the loan application date. The loan cannot exceed \$10 million.

For Employers, "Payroll Costs" include the total payments of any compensation (capped at \$100,000 on an annualized basis for each employee) with respect to employees including:

- salary, wage, commission, or similar compensation;
- payment of cash tip or equivalent;
- payment for vacation, parental, family, medical, or sick leave
- allowance for dismissal or separation
- payment required for the provisions of group health care benefits, including insurance premiums
- payment of any retirement benefit
- payment of state or local tax assessed on the compensation of the employee (NOT federal payroll taxes)

NOTE: Independent contractors do not count for purposes of a borrower's PPP loan calculation, as they have the ability to apply for a PPP loan on their own.

For Sole Proprietors, Independent Contractors, and Self-Employed Individuals, "Payroll Costs" include total payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in one year, as pro-rated for the covered period.

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EXCLUDED Payroll Costs:

- Compensation of an individual employee in excess of an annual salary of \$100,000, as prorated for the period February 15, to June 30, 2020
- Payroll taxes, railroad retirement taxes, and income taxes
- Any compensation of an employee whose principal place of residence is outside of the United States
- Qualified sick leave wages for which a credit is allowed under section 7001 of the Families First Coronavirus Response Act (Public Law 116– 5 127); or qualified family leave wages for which a credit is allowed under section 7003 of the Families First Coronavirus Response Act

Q4: Will this loan be forgiven?

Borrowers are eligible to have their loans forgiven by the SBA up to 100% of the loan amount. The Borrower will not be responsible for loan payment if they use all of the proceeds for forgivable purposes as determined by the SBA and employee and compensation levels are maintained. Loan forgiveness will be subject to verification of proper documentation, as determined by the SBA standards. The SBA will ultimately decide the amount forgiven; the Bank cannot determine that amount. Borrowers should expect to provide detailed employment and payroll records, as well as evidence of mortgage interest, rent, and/or utilities payments made from the loan funds.

Based on current guidance provided by the SBA, a borrower may be eligible for loan forgiveness equal to the amount the borrower spent on the allowable purposes during the 8-week period beginning on the date of the origination of the loan. The loan forgiveness cannot exceed the principal amount of the loan. Any remaining unforgiven balance of the loan must be repaid according to the loan terms.

The SBA has indicated that the amount of forgiveness may be reduced if there is a reduction in the number of employees or a reduction of greater than 25% in wages paid to employees. Please refer to the SBA website for specific guidance.

Q5: If I accept this loan can I still take out another loan?

Yes, with one exception. In general, borrowers who accept a PPP loan may still seek additional funding from other sources and for other purposes as needed. The usual SBA requirement that the borrower be ineligible to obtain credit elsewhere is waived for this loan program.

The one exception pertains to the Economic Injury Disaster Loans (“EIDL”) and loans extended under another SBA 7(a) program for the same purpose between January 31, 2020 and April 3, 2020. Anyone

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seeking funds under the PPP must certify that the entity or individual applying has not already received an EIDL and/or another 7(a) loan for the same purpose (i.e. for payroll) during this time.

Borrowers should be aware that only one PPP loan may be extended to each entity or individual. Obtaining PPP funding from multiple financial institutions is not permissible.

Q6: What are the general terms of the PPP loans (rate, term, etc.)?

According to the latest guidance from the U.S. Treasury, PPP loans will have an interest rate of 1.0% and a term of 2 years. By law, PPP loan interest rates are capped at 4% and term length may not be longer than 10 years from the date that the borrower seeks loan forgiveness. This has understandably caused confusion with Borrowers, but the maximum caps incorporated into the legislation do not reflect the true terms of loans as they are extended under the program. The rate will be 1.0% and the term will be 2 years. There will be no prepayment penalties on PPP loans, therefore you may pay your loan at any time prior to the maturity date at no additional cost to you.

PPP loans do not require any collateral or personal guarantees.

However, if the proceeds are used for fraudulent purposes, the U.S. Government will pursue criminal charges against you.

Q7: What if I cannot afford to make payments immediately? Are loan payments deferred?

All loans made under this program will automatically have payments deferred for at least 6 months. However, interest will continue to accrue on PPP loans during this six-month deferment period.

Q8: Is there a deadline to receive Paycheck Protection funds?

Yes, the program deadline is June 30, 2020. Funds are limited and are disbursed on a first come, first served basis. Demand is high and funds may run out quickly. We encourage you to apply as quickly as you can due to this funding cap and the need for time processing your loan request.

Q9: When can I apply?

Beginning April 3, 2020, small businesses and sole proprietorships may apply.

Beginning April 10, 2020, independent contractors and self-employed individuals may apply.

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Q10: Where can I apply?

You may complete your pre-application online at www.capitalbankmd.com/paycheck-protection. You will be contacted by a Capital Bank representative to obtain the remaining necessary documentation to complete your application.

Q11: What information will be required with my application?

Upon completion of the pre-application a banker will share with you the SBA's Paycheck Protection Loan Application Form 2483 which will also need to be completed. The Bank has received final guidance from the SBA on the required documentation. The minimum documentation requirements include the following:*

- 2019 Business Tax Return (if filed) or Year-End Financial Statements to include Profit & Loss and Balance Sheet
- Detailed Profit & Loss statement for YTD 2020
- 2019 IRS Quarterly 940, 941 or 944 payroll tax reports (and the first quarter of 2020, if available)
- Last 12 months of Payroll Reports beginning with your last payroll date and going backwards 12 months (e.g. gross wages for each employee, paid time off for each employee, vacation pay for each employee)
- 1099s for 2019 for independent contractors that would otherwise be an employee of your business
- Documentation showing total of all health insurance premiums paid by the Company Owner under a group health plan
- Document the sum of all retirement plan funding that was paid by the Company Owner (do not include funding that came from employee paycheck deferrals)
- Verification that the business was in operations as of February 15, 2020 (such as a rent check, utilities bill, or bank statement)
- Articles of Organization/Incorporation and any amendments
- DBA business name statement / assumed name certificate, if applicable
- Operating agreement/by-laws and amendments
- Certificate of good standing in your state

*NOTE: Additional bank records or other documentation may be requested if borrowers do not have such documentation outlined above sufficient to demonstrate the qualifying payroll amount.

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The Bank will also ask you for a good faith certification that:

1. The applicant was in operation on February 15, 2020 and had employees for whom it paid salaries and payroll taxes or paid independent contractors, as reported on a Form 1099-MISC
2. The uncertainty of current economic conditions makes the loan request necessary to support ongoing operations of the applicant
3. The borrower will use the loan proceeds to retain workers and maintain payroll or make mortgage, lease, and utility payments
4. The borrower understands that if the funds are knowingly used for unauthorized purposes, the federal government may hold the borrower legally liable such as for charges of fraud, including not more than 25 percent of loan proceeds being utilized for non-payroll costs
5. Documentation verifying the number of full-time equivalent employees on payroll as well as the dollar amounts of payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities for the eight week period following this loan will be provided to the lender.
6. Loan forgiveness will be provided for the sum of documented payroll costs, covered mortgage interest payments, covered rent payments, and covered utilities.
7. Borrower does not have an application pending for a loan duplicative of the purpose and amounts applied for here
8. During the period beginning on February 15, 2020 and ending on December 31, 2020, the applicant has not received a loan duplicative of the purpose and amounts applied for under this program (Note: There is an opportunity to fold emergency loans made between Jan. 31, 2020 and the date this loan program becomes available into a new loan)
9. All the information you provided in your application and in all supporting documents and forms is true and accurate in all material respects. Knowingly making a false statement to obtain a loan under this program is punishable by law.
10. You acknowledge that the Bank will calculate the eligible loan amount using the tax documents you submit. You affirm that the tax documents provided are identical to those you submitted to the IRS.

If you are an independent contractor, sole proprietor, or self-employed individual, lenders will also be looking for certain documents (final requirements will be announced by the government) such as payroll tax filings, Forms 1099-MISC, and income and expenses from the sole proprietorship.

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