



WOOLSTON CONSULTING GROUP, LLC

Certified Public Accountants and Consultants

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Dear Client:

The SBA provided additional clarification today on the critical issue of how the borrower will be evaluated to determine if the loan was necessary due to current economic uncertainty to support ongoing operations. Initial guidance has indicated that, if need was not established, than the borrower could be subject to substantial penalties. The SBA FAQ Question #46 issued today states the following:

- All loans over \$2 Million will be audited by the SBA and the borrowers will have to provide evidence to support the economic need.
- The majority of loans under \$2 Million will not be audited due to SBA limited resources. It will be assumed that these companies did not have access to adequate sources of liquidity to manage the economic uncertainty and, therefore, were eligible for the loan.
- If PPP loans of any size are audited and they determine that the company was not eligible for the loan, forgiveness will not be granted and the loan will need to be repaid. For these repayments, the borrowers will not be subjected to any penalties.

The complete guidance on this point is as follows:

46. Question: How will SBA review borrowers' required good-faith certification concerning the necessity of their loan request?

Answer: When submitting a PPP application, all borrowers must certify in good faith that "[c]urrent economic uncertainty makes this loan request necessary to support the ongoing operations of the Applicant." SBA, in consultation with the Department of the Treasury, has determined that the following safe harbor will apply to SBA's review of PPP loans with respect to this issue: Any borrower that, together with its affiliates, received PPP loans with an original principal amount of less than \$2 million will be deemed to have made the required certification concerning the necessity of the loan request in good faith.

SBA has determined that this safe harbor is appropriate because borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers that obtained larger loans. This safe harbor will also promote economic certainty as PPP borrowers with more limited resources endeavor to retain and rehire employees. In addition, given the large volume of PPP loans, this approach will enable SBA to conserve its finite audit resources and focus its reviews on larger loans, where the compliance effort may yield higher returns.

Importantly, borrowers with loans greater than \$2 million that do not satisfy this safe harbor may still have an adequate basis for making the required good-faith certification, based on their individual circumstances in light of the language of the certification and SBA guidance. SBA has previously stated that all PPP loans in excess of \$2 million, and other PPP loans as appropriate, will be subject to review by SBA for compliance with program requirements set forth in the PPP Interim Final Rules and in the Borrower Application Form. If SBA determines in the course of its review that a borrower lacked an adequate basis for the



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required certification concerning the necessity of the loan request, SBA will seek repayment of the outstanding PPP loan balance and will inform the lender that the borrower is not eligible for loan forgiveness. If the borrower repays the loan after receiving notification from SBA, SBA will not pursue administrative enforcement or referrals to other agencies based on its determination with respect to the certification concerning necessity of the loan request. SBA's determination concerning the certification regarding the necessity of the loan request will not affect SBA's loan guarantee.

Please contact us if you have any questions. We will continue to provide additional PPP guidance as it becomes available.

All our best.

Sincerely,

Woolston Consulting Group, LLC

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