



GUIDANCE ISSUED FOR PPP FIRST-DRAW LOAN INCREASES, REAPPLICATIONS

From the Journal of Accountancy by Jeff Drew

The U.S. Small Business Administration (SBA) released procedural guidance Wednesday night, January 13, that details the requirements for Paycheck Protection Program (PPP) borrowers to reapply for a PPP loan or request an increase to a PPP loan.

The [procedural notice](#) applies primarily to first-draw PPP loans approved by Aug. 8, 2020, which is when the first iteration of the program stopped accepting applications. The guidance does not apply to second-draw PPP loans (i.e., second PPP loans obtained by previous PPP borrowers), which are not eligible for increases or reapplications, or to first-draw loans for which forgiveness payments have already been remitted by the SBA.

The PPP, which reopened for community financial institutions (CFIs) earlier this week, [will open](#) for lenders with \$1 billion or less in assets on Friday and for all lenders on Jan. 19.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, known as the Economic Aid Act, which rebooted the PPP with \$284.5 billion in fresh funding, changed the existing rules regarding increases to PPP loans made to first-time borrowers. Under previous PPP rules, a PPP loan could not be increased unless the loan was made to a partnership or seasonal employer and the lender approved the increase before submitting the initial SBA Form 1502 report for the loan. Section 312 of the Economic Aid Act scraps the Form 1502 restriction and provides for additional narrow circumstances under which increased PPP loans would be allowed.

Those narrow circumstances were described in the consolidated [interim final rule](#) (IFR) “Business Loan Program Temporary Changes; Paycheck Protection Program as Amended by Economic Aid Act” released Jan. 6. The SBA procedural notice released Wednesday night provides guidance on the procedures for reapplying or requesting an increase for a first-draw PPP loan.

Following is an overview of those policies and procedures.

Requirements to reapply for a PPP loan or request a loan increase

- Loan increases or reapplications are prohibited for PPP loans if the SBA has remitted a forgiveness payment to the lender for the loan, though such borrowers may be eligible for a second-draw PPP loan.
- Increases to first-draw PPP loans can be made only by the lender of record for the loan, i.e., the lender that is reflected in the SBA’s system as the current owner of the loan. If the loan was sold after it was originated, the lender that purchased the loan is the lender of record.
- Borrowers that returned or repaid a first-draw PPP loan are eligible to reapply for that loan provided the lender reported to the SBA before Dec. 27 that the borrower had fully repaid



the loan or canceled the loan. The borrower may then apply for a new first-draw PPP loan in an amount the borrower is eligible for under current PPP rules.

- Borrowers that returned or repaid part of a first-draw PPP loan may request a loan increase equal to the difference between the amount not paid back by the borrower and the amount previously approved. The lender may disburse those funds to the borrower provided that the lender reported to the SBA before Dec. 27 that the loan had been partially repaid. For example, if a borrower returned \$25,000 of a \$100,000 PPP loan because the borrower could not spend the funds during the covered period, the lender can disburse \$25,000 back to the borrower provided other conditions are met.
- Borrowers that did not accept before Dec. 27 the full amount of a first-draw PPP loan for which they were approved may apply for an increase in the loan up to the amount previously approved. Lenders may approve the request and disburse the funds but must follow one of two processes detailed in the notice based on how they reported before Dec. 27 that the borrower did not accept the full amount of the PPP loan.

Partnerships

If a partnership received a first-draw PPP loan that covered payroll costs of the partnership's employees and other eligible expenses, but did not include any amount for partner compensation, the lender may electronically submit a request through the SBA's E-Tran Servicing site (E-Tran) to increase the loan amount to include appropriate partner compensation, even if the loan has been fully disbursed and the lender's first Form 1502 report has already been submitted.

The amount of the increase may not exceed the maximum loan amount to which the borrower is entitled under PPP rules, and in no event can the increased loan amount exceed the maximum PPP loan amount (\$10 million for an individual borrower or \$20 million for a corporate group). Additionally, the borrower must provide the lender with all required documentation to support the calculation of the increase to include partner compensation.

The lender must submit any request for an increase electronically in E-Tran no later than March 31 and is subject to the availability of funds.

Seasonal employers

Section 336 of the Economic Aid Act revised the method by which a seasonal employer may determine its maximum PPP loan amount. Seasonal employers are now allowed to use the average total monthly payments for payroll for any 12-week period the employer selects between Feb. 15, 2019, and Feb. 15, 2020. Seasonal employers that received a first-draw PPP loan may be eligible for a loan increase if application of the methodology in Section 336 results in the calculation of a higher loan amount.

In that scenario, the lender may electronically submit a request through E-Tran to increase the loan, provided it does not exceed the applicable maximum PPP loan amounts.



Farmers and ranchers

Section 313 of the Economic Aid Act changed the calculation of the maximum loan amount for certain farmers and ranchers. If an eligible farmer or rancher received a first-draw PPP loan and would be eligible for a higher maximum loan amount based on the formula described in subsection B.4.d. of the [consolidated IFR](#), the lender of record may electronically submit a request through E-Tran to increase the loan amount, again subject to the loan maximum and documentation requirements.

PPP funding, forms, and guidance

Accountants played a key role in helping small businesses secure needed funding during the first iteration of the PPP, which provided [\\$525 billion in forgivable loans](#) over five months before it stopped accepting applications in August. The \$284.5 billion in fresh PPP funding includes set-asides of \$35 billion for first-time loans and \$15 billion for CFIs.

The SBA and Treasury [issued guidance](#) Jan. 6 for the new PPP, which shares many of the same rules as the old PPP but also has some significant differences. Application forms for [first-](#) and [second-draw](#) loans [were released](#) a couple of days later.