

PPP Loans Have Had A Rule Change - What Businesses and Entrepreneurs Need to Know UPDATED 4/1/21

March 24, 2021 - Out of all of the stimulus programs put in place by the Trump administration due to COVID, PPP loans have been among the most successful. They've kept millions of people employed and have allowed tens of thousands of businesses to survive the various state shutdowns that have been in place. Late last year, the program was extended to the end of March and the government also opened it up to 2nd draw loans (meaning that businesses that had already received a loan could apply for a 2nd PPP loan to keep going). Now the Biden administration changed the rules in a way that makes the program a lot more attractive to very small businesses, but you'll have to hurry if you want to take advantage of it.

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Originally, PPP loans were to be a one-time thing. A business would receive the loan and then after about 12 weeks, the business would be able to apply for loan forgiveness. To have the loan forgiven, the business would have to prove that most of the loan proceeds were used to pay for payroll expenses. Certain business expenses could also be included, such as mortgage interest.

But those rules have been in flux for most of the time the program has been around. First the government changed the amount of time that businesses had to spend the money they received. Then they simplified the forgiveness application for businesses that received small loans. After that, they allowed businesses that had already received a loan to apply to the program again.

The latest change to the rules has to do with the way that loan amounts are calculated and it is especially relevant to sole proprietors. Under the old rules, loan amounts were calculated on net profit. Specifically, borrowers could apply for a loan amount equal to 2.5 months of their net profit. For sole proprietors, that means 2.5 months of take-home pay.

The latest rule change allows borrowers to request a loan amount of 2.5 months of gross revenue. That can amount to a huge difference in the amount of money available to them. The change applies to anyone applying for either a 1st or 2nd draw loan, but it can't be applied for loans that have already been distributed.

March 31st was going to be the last day to receive a PPP loan under the original rules, but the president just signed an order extending the deadline by two more months. But because it can take time to put the necessary documentation

together and to obtain approval, any business considering an application should move quickly. And anyone with an existing application for a loan that hasn't been distributed yet should check with their lender to see if they can change the amount of their loan based on the new rules.

Note: This article has been updated to reflect a recent extension of the PPP program.

by Jim Malmberg

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