

**SMALL BUSINESS ADMINISTRATION**

**13 CFR Part 120**

**[Docket No. SBA-2020-0037]**

**RIN 3245-AH51**

**Business Loan Program Temporary Changes; Paycheck Protection Program – Revisions to the Third and Sixth Interim Final Rules**

**AGENCY:** U.S. Small Business Administration.

**ACTION:** Interim final rule.

**SUMMARY:** On April 2, 2020, the U.S. Small Business Administration (SBA) posted on its website an interim final rule relating to the implementation of sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act or the Act) (published in the Federal Register on April 15, 2020). Section 1102 of the Act temporarily adds a new product, titled the “Paycheck Protection Program,” to SBA’s 7(a) Loan Program. Subsequently, SBA and Treasury issued additional interim final rules implementing the Paycheck Protection Program. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act) was signed into law, amending the CARES Act. This interim final rule revises interim final rules posted on SBA’s website on April 14, 2020 (published in the Federal Register on April 20, 2020) and April 28, 2020 (published in the Federal Register on May 4, 2020), by changing provisions to conform to the Flexibility Act. Several of these amendments are retroactive to the date of enactment of the CARES Act, as required by section 3(d) of the Flexibility Act.

**DATES:** Effective Dates: The provisions in this interim final rule related to loan forgiveness for PPP loans are effective March 27, 2020. The provision in this interim final rule relating to the maturity date of PPP loans is effective June 5, 2020. The remaining provisions in this interim

final rule are effective [INSERT DATE OF FILING AT THE OFFICE OF THE FEDERAL REGISTER].

Comment Date: Comments must be received on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

ADDRESSES: You may submit comments, identified by number SBA-2020-0037, through the Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.

SBA will post all comments on [www.regulations.gov](http://www.regulations.gov). If you wish to submit confidential business information (CBI) as defined in the User Notice at [www.regulations.gov](http://www.regulations.gov), please send an email to [ppp-ifr@sba.gov](mailto:ppp-ifr@sba.gov). Highlight the information that you consider to be CBI and explain why you believe SBA should hold this information as confidential. SBA will review the information and make the final determination whether it will publish the information.

FOR FURTHER INFORMATION CONTACT: A Call Center Representative at 833-572-0502, or the local SBA Field Office; the list of offices can be found at <https://www.sba.gov/tools/local-assistance/districtoffices>.

#### SUPPLEMENTARY INFORMATION:

##### I. Background Information

On March 13, 2020, President Trump declared the ongoing Coronavirus Disease 2019 (COVID-19) pandemic of sufficient severity and magnitude to warrant an emergency declaration for all states, territories, and the District of Columbia. With the COVID-19 emergency, many small businesses nationwide are experiencing economic hardship as a direct result of the Federal, State, and local public health measures that are being taken to minimize the public's exposure to the virus. These measures, some of which are government-mandated, have been implemented

nationwide and include the closures of restaurants, bars, and gyms. In addition, based on the advice of public health officials, other measures, such as keeping a safe distance from others or even stay-at-home orders, have been implemented, resulting in a dramatic decrease in economic activity as the public avoids malls, retail stores, and other businesses.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act or the Act) (Pub. L. 116-136) to provide emergency assistance and health care response for individuals, families, and businesses affected by the coronavirus pandemic. The Small Business Administration (SBA) received funding and authority through the Act to modify existing loan programs and establish a new loan program to assist small businesses nationwide adversely impacted by the COVID-19 emergency.

Section 1102 of the Act temporarily permits SBA to guarantee 100 percent of 7(a) loans under a new program titled the “Paycheck Protection Program.” Section 1106 of the Act provides for forgiveness of up to the full principal amount of qualifying loans guaranteed under the Paycheck Protection Program.

On April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act (Pub. L. 116-139), which provided additional funding and authority for the PPP. On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act) (Pub. L. 116-142), which changes key provisions of the Paycheck Protection Program, including provisions relating to the maturity of PPP loans, the deferral of PPP loan payments, and the forgiveness of PPP loans. Section 3(d) of the Flexibility Act provides that the amendments relating to PPP loan forgiveness and extension of the deferral period for PPP loans shall be effective as if included in the CARES Act, which means that they are retroactive to March 27, 2020. Section 2 of the Flexibility Act provides that the amendment

relating to the extension of the maturity date for PPP loans shall take effect on the date of enactment (June 5, 2020). Under the Flexibility Act, the extension of the maturity date for PPP loans is applicable to PPP loans made on or after that date, and lenders and borrowers may mutually agree to modify PPP loans made before such date to reflect the longer maturity.

## II. Comments and Retroactive/Immediate Effective Date

This interim final rule is effective without advance notice and public comment because section 1114 of the CARES Act authorizes SBA to issue regulations to implement Title I of the Act without regard to notice requirements. In addition, SBA has determined that there is good cause for dispensing with advance public notice and comment on the grounds that it would be contrary to the public interest. Specifically, advance public notice and comment would defeat the purpose of this interim final rule given that SBA's authority to guarantee PPP loans expires on June 30, 2020, and that many PPP borrowers can now apply for loan forgiveness following the end of their eight-week covered period. Providing borrowers and lenders with certainty on both loan requirements and loan forgiveness requirements following the enactment of the Flexibility Act will enhance the ability of lenders to make loans and process loan forgiveness applications, particularly in light of the fact that most of the Flexibility Act's provisions are retroactive to March 27, 2020. Specifically, small businesses that have yet to apply for and receive a PPP loan need to be informed of the terms of PPP loans as soon as possible, because the last day on which a lender can obtain an SBA loan number for a PPP loan is June 30, 2020. Borrowers who already have applied for and received a PPP loan need certainty regarding how loan proceeds must be used during the covered period, as amended by the Flexibility Act, so that they can maximize the amount of loan forgiveness. These same reasons provide good cause for SBA to dispense with the 30-day delayed effective date provided in the Administrative

Procedure Act. Although this interim final rule is effective on or before date of filing, comments are solicited from interested members of the public on all aspects of the interim final rule, including section III below. These comments must be submitted on or before [INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]. The SBA will consider these comments, comments received on the interim final rules amended by this interim final rule, which were posted on April 14 and April 28, 2020 (and published in the Federal Register on April 20, 2020 and May 4, 2020, respectively), and the need for making any revisions as a result of these comments.

### III. Paycheck Protection Program – Revisions to Third and Sixth Interim Final Rules

#### *Overview*

The CARES Act was enacted to provide immediate assistance to individuals, families, and businesses affected by the COVID-19 emergency. Among the provisions contained in the CARES Act are provisions authorizing SBA to temporarily guarantee loans under a new 7(a) loan program titled the “Paycheck Protection Program.” Loans guaranteed under the Paycheck Protection Program (PPP) will be 100 percent guaranteed by SBA, and the full principal amount of the loans may qualify for loan forgiveness. The Flexibility Act amends the CARES Act, including its provisions relating to loan terms and loan forgiveness. The purpose of this interim final rule is to update the Interim Final Rule on Additional Eligibility Criteria and Requirements for Certain Pledges of Loans (Third Interim Final Rule), posted on SBA’s website on April 14, 2020 and published in the Federal Register on April 20, 2020 (85 FR 21747), and the Interim Final Rule on Disbursements (Sixth Interim Final Rule), posted on SBA’s website on April 28, 2020 and published in the Federal Register on May 4, 2020 (85 FR 26321), in light of the amendments under the Flexibility Act. The Third Interim Final Rule and the Sixth Interim Final

Rule, each as amended by this interim final rule, should be interpreted consistent with the frequently asked questions (FAQs) regarding the PPP that are posted on SBA’s website<sup>1</sup> and the other interim final rules issued regarding the PPP.<sup>2</sup>

***1. Changes to the Third Interim Final Rule***

***a. Use of PPP Loan Proceeds***

Under section 1102 of the CARES Act, certain provisions regarding the issuance and use of PPP loans are limited to the “covered period.” “Covered period,” as that term is used in section 1102 of the CARES Act, was originally defined as the period from February 15, 2020, to June 30, 2020. However, section 3(a) of the Flexibility Act extended the “covered period” as defined in section 1102 until December 31, 2020. Therefore, Part III.1.d.(iii.) of the Third Interim Final Rule (85 FR 21747, 21749) is revised by striking “during the eight-week period following the first disbursement of the loan (the “covered period”)” and “during the covered period”.

Section 2(a) of the Flexibility Act provides a minimum maturity of five years for all PPP loans made on or after the date of enactment of the Flexibility Act (June 5, 2020), and permits lenders and borrowers to extend the maturity date of earlier PPP loans by mutual agreement. Therefore, Part III.1.d.v. of the Third Interim Final Rule (85 FR 21747, 21749) is revised by striking “PPP’s maturity of two years” and replacing it with “PPP’s maturity of two years for PPP loans made before June 5, 2020 unless the borrower and lender mutually agree to extend the maturity of such loans to five years, or PPP’s maturity of five years for PPP loans made on or after June 5”.

---

<sup>1</sup> See <https://www.sba.gov/document/support--faq-lenders-borrowers>.

<sup>2</sup> See <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>.

Section 3(b) of the Flexibility Act amended the requirements regarding forgiveness of PPP loans to reduce, from 75 percent to 60 percent, the portion of PPP loan proceeds that must be used for payroll costs for the full amount of the PPP loan to be eligible for forgiveness. Consistent with this change, SBA's interim final rule posted on June 11, 2020, decreased from 75 percent to 60 percent the portion of loan proceeds that must be used for payroll costs. Therefore, Part III.1.e. of the Third Interim Final Rule (85 FR 21747, 21750) is revised to read as follows:

*e. Are there any other restrictions on how I can use PPP loan proceeds?*

Yes. At least 60 percent of the PPP loan proceeds shall be used for payroll costs. For purposes of determining the percentage of use of proceeds for payroll costs (but not for forgiveness purposes), the amount of any refinanced EIDL will be included. The rationale for this 60 percent floor is contained in the First PPP Interim Final Rule and SBA's interim final rule posted on June 11, 2020.

*b. Loan Forgiveness*

Under section 1106 of the CARES Act, certain provisions regarding the forgiveness of PPP loans are limited to the "covered period." "Covered period," as that term is used in section 1106 of the CARES Act, was originally defined as the eight-week period beginning on the date of the origination of a covered loan. However, section 3(b) of the Flexibility Act extended the length of the covered period as defined in section 1106 of the CARES Act from eight to 24 weeks, while allowing borrowers that received PPP loans before June 5, 2020 to elect to use the original eight-week covered period. As noted above, section 3(b) of the Flexibility Act also amended the requirements regarding forgiveness of PPP loans to reduce, from 75 percent to 60 percent, the amount of PPP loan proceeds that must be used for payroll

costs for the full amount of the PPP loan to be eligible for forgiveness. Therefore, Part III.1.f. of the Third Interim Final Rule (85 FR 21747, 21750) is revised to read as follows:

*f. What amounts shall be eligible for forgiveness?*

The amount of loan forgiveness can be up to the full principal amount of the loan plus accrued interest. The actual amount of loan forgiveness will depend, in part, on the total amount spent over the 24-week period beginning on the date your PPP loan is disbursed<sup>3</sup> (“covered period”) on:

- i. payroll costs including salary, wages, and tips, up to \$100,000 of annualized pay per employee (for 24 weeks, a maximum of \$46,154 per individual,<sup>4</sup> or for eight weeks, a maximum of \$15,385 per individual), as well as covered benefits for employees (but not owners), including health care expenses, retirement contributions, and state taxes imposed on employee payroll paid by the employer (such as unemployment insurance premiums);
- ii. owner compensation replacement, calculated based on 2019 net profit as described in Paragraph 1.b. above, with forgiveness of such amounts limited to eight weeks’ worth (8/52) of 2019 net profit (up to \$15,385) for an eight-week covered period or 2.5 months’ worth (2.5/12) of 2019 net profit (up to \$20,833) for a 24-week covered period, but excluding any qualified sick leave equivalent amount for which a credit is claimed under

---

<sup>3</sup> If your PPP loan was made before June 5, 2020, you may elect to have your covered period be the eight-week period beginning on the date your PPP loan was disbursed. In addition, under section 3(b)(1) of the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act), the covered period of any borrower will end no later than December 31, 2020.

<sup>4</sup> Given the 2.5 multiplier in the calculation of maximum PPP loan amount in SBA Form 2483, this per-individual maximum would only be reached if the borrower had reduced its FTEs but was eligible for an exemption (safe harbor) from the resulting reduction in forgiveness.

section 7002 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116-127) or qualified family leave equivalent amount for which a credit is claimed under section 7004 of FFCRA;

- iii. payments of interest on mortgage obligations on real or personal property incurred before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business mortgage payments);
- iv. rent payments on lease agreements in force before February 15, 2020, to the extent they are deductible on Form 1040 Schedule C (business rent payments); and
- v. utility payments under service agreements dated before February 15, 2020 to the extent they are deductible on Form 1040 Schedule C (business utility payments).

The Administrator, in consultation with the Secretary, has determined that it is appropriate to limit the forgiveness of owner compensation replacement for individuals with self-employment income who file a Schedule C or F to either eight weeks' worth (8/52) of 2019 net profit (up to \$15,385) for an eight-week covered period or 2.5 months' worth (2.5/12) of 2019 net profit (up to \$20,833) for a 24-week covered period per owner in total across all businesses. This approach is consistent with the structure of the CARES Act and its overarching focus on keeping workers paid, and will prevent windfalls that Congress did not intend. Specifically, Congress determined that the maximum loan amount is generally based on 2.5 months of the borrower's average total monthly payroll costs during the one-year period preceding the loan. 15 U.S.C. 636(a)(36)(E). For example, a borrower with one other employee

would receive a maximum loan amount equal to five months of payroll (2.5 months of payroll for the owner plus 2.5 months of payroll for the employee). If the owner laid off the employee and availed itself of the safe harbor in the Flexibility Act from reductions in loan forgiveness for a borrower that is unable to return to the same level of business activity the business was operating at before February 15, 2020, the owner could treat the entire amount of the PPP loan as payroll, with the entire loan being forgiven. This would not only result in a windfall for the owner, by providing the owner with five months of payroll instead of 2.5 months, but also defeat the purpose of the CARES Act of protecting the paycheck of the employee. For borrowers with no employees, this limitation will have no effect, because the maximum loan amount for such borrowers already includes only 2.5 months of their payroll. Finally, at least 60 percent of the amount forgiven must be attributable to payroll costs, for the reasons specified in the First PPP Interim Final Rule and SBA's interim final rule posted on June 11, 2020.

In addition, Part III.1.g. of the Third Interim Final Rule (85 FR 21747, 21750) is revised by striking "eight-week".

## ***2. Changes to the Sixth Interim Final Rule***

As described above, section 3(b) of the Flexibility Act extended the length of the covered period as defined in section 1106 of the CARES Act from eight to 24 weeks, while allowing borrowers that received PPP loans before June 5, 2020 to elect to use the original eight-week covered period. Therefore, Part III.1.a. of the Sixth Interim Final Rule (85 FR 26321, 26322-23) is revised by striking both references to "eight-week covered period" and replacing them with "covered period".

## ***3. Additional Information***

SBA may provide further guidance, if needed, through SBA notices which will be posted on SBA's website at [www.sba.gov](http://www.sba.gov). Questions on the Paycheck Protection Program may be directed to the Lender Relations Specialist in the local SBA Field Office. The local SBA Field Office may be found at <https://www.sba.gov/tools/local-assistance/districtoffices>.

**Compliance with Executive Orders 12866, 12988, 13132, 13563, and 13771, the Paperwork Reduction Act (44 U.S.C. Ch. 35), and the Regulatory Flexibility Act (5 U.S.C. 601-612).**

**Executive Orders 12866, 13563, and 13771**

This interim final rule is economically significant for the purposes of Executive Orders 12866 and 13563, and is considered a major rule under the Congressional Review Act. SBA, however, is proceeding under the emergency provision at Executive Order 12866 Section 6(a)(3)(D) based on the need to move expeditiously to mitigate the current economic conditions arising from the COVID-19 emergency. This rule's designation under Executive Order 13771 will be informed by public comment.

This rule is necessary to implement Sections 1102 and 1106 of the CARES Act and the Flexibility Act in order to provide economic relief to small businesses nationwide adversely impacted under the COVID-19 Emergency Declaration. We anticipate that this rule will result in substantial benefits to small businesses, their employees, and the communities they serve. However, we lack data to estimate the effects of this rule.

**Executive Order 12988**

SBA has drafted this rule, to the extent practicable, in accordance with the standards set forth in section 3(a) and 3(b)(2) of Executive Order 12988, to minimize litigation, eliminate ambiguity, and reduce burden. The rule has no preemptive effect but does have a limited retroactive effect consistent with section 3(d) of the Flexibility Act.

### Executive Order 13132

SBA has determined that this rule will not have substantial direct effects on the States, on the relationship between the National Government and the States, or on the distribution of power and responsibilities among the various layers of government. Therefore, SBA has determined that this rule has no federalism implications warranting preparation of a federalism assessment.

### Paperwork Reduction Act, 44 U.S.C. Chapter 35

SBA has determined that this rule will not modify existing recordkeeping or reporting requirements under the Paperwork Reduction Act.

### Regulatory Flexibility Act (RFA)

The Regulatory Flexibility Act (RFA) generally requires that when an agency issues a proposed rule, or a final rule pursuant to section 553(b) of the APA or another law, the agency must prepare a regulatory flexibility analysis that meets the requirements of the RFA and publish such analysis in the Federal Register. 5 U.S.C. 603, 604. Specifically, the RFA normally requires agencies to describe the impact of a rulemaking on small entities by providing a regulatory impact analysis. Such analysis must address the consideration of regulatory options that would lessen the economic effect of the rule on small entities. The RFA defines a “small entity” as (1) a proprietary firm meeting the size standards of the Small Business Administration (SBA); (2) a nonprofit organization that is not dominant in its field; or (3) a small government jurisdiction with a population of less than 50,000. 5 U.S.C. 601(3)–(6). Except for such small government jurisdictions, neither State nor local governments are “small entities.” Similarly, for purposes of the RFA, individual persons are not small entities.

The requirement to conduct a regulatory impact analysis does not apply if the head of the agency “certifies that the rule will not, if promulgated, have a significant economic impact on a

substantial number of small entities.” 5 U.S.C. 605(b). The agency must, however, publish the certification in the Federal Register at the time of publication of the rule, “along with a statement providing the factual basis for such certification.” If the agency head has not waived the requirements for a regulatory flexibility analysis in accordance with the RFA’s waiver provision, and no other RFA exception applies, the agency must prepare the regulatory flexibility analysis and publish it in the Federal Register at the time of promulgation or, if the rule is promulgated in response to an emergency that makes timely compliance impracticable, within 180 days of publication of the final rule. 5 U.S.C. 604(a), 608(b).

Rules that are exempt from notice and comment are also exempt from the RFA requirements, including conducting a regulatory flexibility analysis, when among other things the agency for good cause finds that notice and public procedure are impracticable, unnecessary, or contrary to the public interest. Small Business Administration’s Office of Advocacy guide: *How to Comply with the Regulatory Flexibility Act, Ch.1. p.9*. Accordingly, SBA is not required to conduct a regulatory flexibility analysis.

Authority: 15 U.S.C. 636(a)(36); Paycheck Protection Program Flexibility Act of 2020, Pub. L. No. 116-142; Coronavirus Aid, Relief, and Economic Security Act, Pub. L. 116-136, Section 1114.

**Jovita Carranza,**  
*Administrator*