



FrankelZacharia^{LLC}

Certified Public Accountants

SBA to Issue Loan Necessity Questionnaire to PPP Large Loan Recipients

The SBA will issue a Loan Necessity Questionnaire to recipients of Paycheck Protection Loans (PPP) greater than \$2 million.

The Paycheck Protection Program (PPP), a critical government relief program created by the Coronavirus Aid, Relief and Economic Security (CARES) Act, enabled many businesses to continue operations and keep their workers employed. Borrowers who received PPP loans greater than \$2 million are under scrutiny to justify their economic need for this government aid. As part of the forgiveness process, the SBA announced it would audit all loans greater than \$2 million and it is creating a questionnaire that banks will be required to distribute to PPP borrowers with loans greater than \$2 million, to justify the need for the loans.

The final version of the Loan Necessity Questionnaire is not yet available on the SBA website, although a draft has been circulating for discussion. Some borrowers may feel it is prudent to take a wait-and-see attitude when it comes to the completion of this questionnaire, as the SBA may change its approach at any time before issuing it. However, it appears that a response will be required to be considered for loan forgiveness.

PPP large loan recipients should plan ahead, gather documentation and be prepared to respond to the questionnaire. Borrowers should note the following:

- Lenders will issue the questionnaire which must be completed and submitted with supporting documentation within 10 days of receipt from the lender.
- The supplemental information that borrowers provide will be used to evaluate the good-faith certification of economic necessity that borrowers made on their PPP loan applications.
- The questionnaire is fact-based and refers to current year business activity compared to the taxpayer's prior year, as well as liquidity before applying for the loan and during the covered period.
- The questionnaire does not consider contingencies, varying scenarios or overall risk that a business faces during the pandemic.
- Some sections provide for commentary to support "yes" or "no" answers to the questions. However, the questionnaire appears somewhat limited in its ability to provide a true picture of the economic uncertainty facing a business and the reasoning borrowers used at the time of loan application.
- If a loan recipient fails to complete the form, the SBA may decide the borrower was ineligible for the loan and/or any forgiveness amount claimed.

Once the SBA issues the final questionnaire, loan recipients should review the questions and discuss them with their banker. Borrowers should continue to check the status of the questionnaire on the SBA website to ascertain timing for response. In the meantime, borrowers should gather pertinent documentation and consider the thought process they used when applying for the loan, based on the facts and circumstances at that time.

Questions on the loan necessity questionnaire? Please contact Chris Lambert by phone at 402.963.4306 or by email at clambert@fzacpa.com.