Guidance on Estimating FTEs to Determine PPP Loan Forgiveness Amount
As of July 13, 2020

This Guidance addresses estimating FTEs as part of determining loan forgiveness under the Paycheck Protection Program (PPP). FMA’s companion piece, Average Weekly FTE Estimator, is a tool to help in making these estimates.

The areas covered in this Guidance include:
- Background on the Use of FTEs in the PPP
- Basics of Calculating Average Weekly FTEs
- Hours Paid Method of Calculation of Average Weekly FTEs (aka Mathematical)
- Simplified Method of Calculation of Average Weekly FTEs
- Exceptions to the Rules for Calculating FTEs: Adding FTEs Back in
- Safe Harbors in the PPP: How to Handle FTEs
- Where Do I Start? What Steps Should I Take?

Background on the Use of FTEs in the PPP
What does FTE stand for?
- FTE stands for “Full Time Equivalent.” It is a measure of the amount of time an employee works. It is not headcount.
- If an employee is paid for 40 hours/week in an organization with a 40-hour work week, the employee is a 1.0 FTE.
- Examples (in a 40 hour/week organization):
  - 40 hours = 1 FTE
  - 20 hours = 0.5 FTE

Why are FTEs important; what is the PPP goal they are related to?
- The primary goal of PPP was to keep or bring back people onto payroll. So, FTEs, are related to the goal of maintaining workforce levels, and, with that, paycheck levels, including by hiring new staff. They measure the level of workforce in hours.

How are FTEs used in the PPP program?
- FTEs are used to measure the workforce level during the forgiveness Covered Period and to compare it to the workforce level during the Comparison period (known as the reference period in the Loan Forgiveness Application). They are also used to measure workforce levels to support the use of the EZ Application.

Are all employees counted?
- Yes, all employees are counted, whether or not PPP funds are used to cover their salaries. This includes employees who are on FMLA.

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What are the dates of the relevant Covered and Comparison Periods?

- The Covered Period begins on the date money is deposited in your bank account and continues for a total of 8 weeks (56 days) or 24 weeks (168 days) based on the period selected.
- The Comparison period options are as follows; you may select the lowest of the options:
  - Option 1: February 15 – June 30, 2019
  - Option 2: January 1 – February 29, 2020
  - For seasonal organizations: either of the two preceding methods or a consecutive 12-week period between May 1 – September 15, 2019.

What happens if the average weekly FTEs during the Covered Period (8 or 24 weeks) are less than the average weekly FTEs during the Comparison Period selected (see definition in the next section, titled Basics of Calculating Average Weekly FTEs)?

- Loan forgiveness is proportionately reduced by the same percentage as the reduction in average weekly FTEs.
  Example: Loan Forgiveness would be reduced from 100% to 90% if:
    - Covered Period: 9 average weekly FTEs
    - Comparison Period: 10 average weekly FTEs
    - Proportionate Reduction: 1 FTE or 10% reduction (1FTE/10FTE)
    - FTE Reduction Quotient, as used in the Loan Forgiveness Application: 90%

What are the relevant dates to support use of the EZ Application?

- If you did not reduce the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period, then, under the EZ Application (instructions p 4) you calculate workforce levels as of January 1, 2020 and the end of the Covered Period to substantiate eligibility to use the EZ Application.

Basics of Calculating Average Weekly FTEs

What is the unit of measurement to compare FTEs?

- The unit of measurement is “average weekly FTEs”

How do I calculate average weekly FTEs for my organization for a period?

- First: Calculate the average weekly FTE for each employee separately
- Second: Add up the average weekly FTEs for all employees during that period to get the total for the period

What are the options for calculating average weekly FTEs?

- There are two options, which are described in the following sections
  - Hours paid (aka Mathematical)
Simplified

**Hours Paid Method of Calculation of Average Weekly FTEs (aka Mathematical)**

**What is this method based on?**
- It is based on using the actual hours paid.
- Formula: average weekly FTE = average weekly hours paid/40-hour standard work week, rounded to the nearest tenth; however, the maximum for each employee is capped at 1, even if the employee works more than 40 hours.

**Why is the standard work week 40 hours?**
- The SBA has determined that the standard work week is 40 hours. All calculations must be based on this. If you have a work week of 37.5 hours or something else other than 40 hours, you must still base your calculations on 40 hours (i.e. use it as the denominator).

**How do I calculate the average weekly FTE for an employee using this method?**
- First, calculate the total hours the employee was paid for during the period (however large or small)
  - If an employee was paid for a regular full-time or part-time schedule without interruption, you can calculate based on their work schedule
    - **Example.** Someone who consistently was paid for 20 hours/week during the 8-week covered period would be 8 x 20 = 160 hours
  - For all other employees (i.e. those who started after the beginning of the period, ended before the end or worked an irregular schedule), determine the actual hours they were paid for during the period:
    - As needed, pro-rate hours they were paid for from the pay periods that overlap the beginning and end of the period you are calculating
- Second, divide the total hours they were paid for by the number of weeks in the period to calculate the average weekly hours the employee was paid for in
  - Formula: total hours paid/# of weeks = average weekly hours
- Third, divide the average weekly hours by 40 to calculate the average weekly FTE
  - **Example:** FTE would be 0.75 where:
    - Covered Period: 8 weeks
    - Total Hours Paid For: 240 hours
    - Formulas:
      - Average Weekly Hours: 240 hours/8 weeks = 30 hours
      - Average Weekly FTE: 30/40 = 0.75

**How does FMA’s Average Weekly FTE Estimator work?**
- Once you enter the hours paid for the employees involved, it calculates the average weekly FTE for each employee and provides the totals for all employees for the periods calculated. You can later enter this information in the Forgiveness Loan Application. You can also use it

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to estimate average weekly FTEs for the Covered Period until the actual hours paid are available to enter.

Can my payroll processing firm generate a report that will help me with these calculations?

- Yes. Payroll processing companies are producing reports that provide total hours paid for the period selected. You can use this information to enter the data needed in the FMA's Average Weekly FTE Estimator.

**Simplified Method of Calculation of Average Weekly FTEs**

**What is the “simplified” method?**

- Under the Interim Final Rule (IFR) issued May 22, the “simplified” method provides a simple way to calculate FTEs for part-time staff for administrative convenience. It is provided to all borrowers for administrative convenience.
  - Under the IFR, “Borrowers may select only one of these two methods [Hours worked or simplified] and must apply that method consistently to all of their part-time employees for the covered period or the alternative covered period and the selected reference period.”

Can I use the “simplified” method?

- Yes. All borrowers have the option of using the simplified method.

**How do I calculate the average weekly FTE for the period using the “simplified” method?**

- All employees who are paid 40 hours/week or more are assigned 1.0.
- Employees who were paid less than 40 hours/week (including in organizations with set schedules of less than 40 hours) are assigned 0.5.
- Add up the average weekly FTEs using this method to arrive at the total for the period.

Do I apply 0.5 to the period or to each week when calculating this for employees who work less than 40 hours per week?

- Unfortunately, this is not clear under the existing rules. There are two possible approaches as described below. We suggest that you calculate it both ways for now to estimate, pending further guidance.

What are the alternatives for employees who work less than 40 hours per week?

- **Alternative 1:** assign 0.5 to each employee who was paid during the period; this is their average weekly FTE (regardless of the number of hours the employee was paid; functionally similar to headcount)
- **Alternative 2:** assign 0.5 for each week the employee was paid during the period and 0.0 for those weeks that the employee was not paid, then average the amount over the total weeks in the period to arrive at the average weekly FTE for the employee for the period

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We think this is less likely, however further guidance may clarify this was intended.

Example: Average weekly FTE would be 0.33 if:

- Covered Period: 24 weeks
- Weeks paid for: 16 weeks
- Average Weekly FTE by week: assign 0.5 for 16 weeks
- Calculation:
  - \(0.5 \times 16 \text{ weeks paid}/24 \text{ weeks in period} = 0.33 \text{ average weekly FTE}\)

**Exceptions to the Rules for Calculating FTEs: Adding FTEs Back In**

What are the exceptions to the rules for calculating FTEs?

- The Loan Forgiveness Application, rev 6/16 (page 5) sets forth the following exceptions:
  - **Offer to Rehire Individuals who were employees on February 15:** any positions for which the Borrower made a good-faith written offer to rehire an individual who was an employee on February 15, 2020 and the Borrower was unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020. [Please see endnote v for the rules regarding this exception.]
  - **Offer to Restore Hours:** any positions for which the Borrower made a good-faith written offer to restore any reduction in hours, at the same salary or wages, during the Covered Period or Alternative Covered Period and employee rejected the offer. [Please see endnote v for the rules regarding this exception.]
  - **Actions by Employees:** any employees during the Covered Period or Alternative Covered Period [who] (a) were fired for cause, (b) voluntarily resigned or (c) voluntarily requested and received a reduction of their hours. [Please see endnote v for the rules regarding this exception.]

What happens in the case of these exceptions?

- The Loan Forgiveness Application, rev 6/16 (page 5) provides: “Any FTE reductions in these cases do not reduce the Borrower’s loan forgiveness.”

How do I add in FTEs for these exceptions in the Loan Forgiveness Application?

- The Loan Forgiveness Application, rev 6/16 (page 5) directs you to include these FTEs in the Schedule A Worksheet on the “FTE Reduction Exception line”, but “only if the position was not filled by a new employee”.
  - Example:
    - Situation: An employee was paid for 16 weeks of the 24-week covered period and then the position was vacant for 8 weeks for one of the reasons explained above
    - Table 1 or 2: include the FTE for the employee for 16 weeks
    - FTE Exception Line: include the FTE for the 8 weeks the position was vacant.

**Safe Harbors in the PPP: How to Handle FTEs**

What are the Safe Harbors in the PPP?

- There are two Safe Harbors which protect borrowers from a reduction in loan forgiveness. These are for:

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Inability to operate at the same level of business activity
Restoration of workforce originally reduced between February 15 – April 26

Does our organization need to calculate FTEs if we qualify for the Safe Harbor related to our inability to operate at the same level of business activity between February 15 – December 31, 2020 as prior to February 15 due to public health mandates related to COVID-19 (Safe Harbor 1)?
• No, you do not need to calculate FTEs for the Covered Period or the Comparison period if you qualify for this Safe Harbor. [Please see endnote vi for the specific rules governing this Safe Harbor.]

Does our organization need to calculate FTEs if we believe we qualify for the Safe Harbor related to workforce reduction during February 15 - April 26 and subsequent restoration by December 31 (Safe Harbor 2), vii?
• If you qualify for this Safe Harbor, you do not need to calculate FTEs for the Covered Period or the Comparison period. However, you do need to calculate FTEs for the relevant periods associated with the Safe Harbor. See the next question below for details. [Please see endnote vii for the specific rules governing this Safe Harbor.]

Where do I start? What steps should I take?
Check to see if Safe Harbor 1 applies
• If you qualify for Safe Harbor 1 you do not need to estimate FTEs and can stop here.
• If you have not reduced the number of employees or the average paid hours of employees between January 1, 2020 and the end of the Covered Period (other than for allowable FTE exceptions as defined above), you can substantiate this and stop here.
  • Estimate the average weekly FTEs as of January 1, 2020 and the end of the Covered Period to substantiate this.

Next, check to see if Safe Harbor 2 applies.
• Determine if you may be eligible for Safe Harbor 2 by estimating
  • Total average weekly FTEs between February 15, 2020 - April 26, 2020
  • Total average weekly FTEs in your pay period inclusive of February 15, 2020
• If the average weekly FTEs between February 15– April 26 are less than your average weekly FTEs as of February 15, you are eligible to be considered for this Safe Harbor. If not proceed to the regular calculations.
• If you are eligible to be considered for Safe Harbor 2, you will need to estimate your average weekly FTEs as of the earlier of December 31 or the date you apply. If they are greater than average weekly FTEs as of the pay period in which February 15 falls, the Safe Harbor applies. If not, proceed to the regular calculations.

If the Safe Harbors do not apply or you are unsure, and if you have reduced FTEs between January 1, 2020 and the end of the Covered Period, estimate average weekly FTEs for the following periods:
• Covered Period (8 weeks, 24 weeks or both if you are still deciding)

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Choose a Comparison Period

Choose the period with the lower FTE count

Feb 15, 2019 – June 30, 2019
OR
January 1, 2020 – Feb 29, 2020
Seasonal can also choose to use any consecutive 12-week period between 5/1/19 – 9/15/19

- Comparison Period (at least 1 Comparison period; check both options if you are not sure which is lower, so you can choose a period; include the seasonal choice if you are a seasonal organization)

Make your estimates using at least one of the following methods to calculate average weekly FTEs; if you are not sure which method will be best for you, estimate all:
- Hours paid method
- Simplified method, applied to the full period and applied weekly as described above (since we are awaiting guidance as to how to apply the simplified method, it is best to estimate it both ways)

Determine if there is a reduction based on the Covered Period, Comparison Period and method of calculating average weekly FTEs selected. You may estimate some or all of the following, then choose the method that produces the best Reduction Quotient (subject to clarification of the Simplified Method):

**EXAMPLE**

**Average Weekly FTE comparison for 8 weeks**

<table>
<thead>
<tr>
<th>Period</th>
<th>Hours Paid Method</th>
<th>Simplified Method Alternative 1 (for Period)</th>
<th>Simplified Method Alternative 2 (by Week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered Period</td>
<td>9</td>
<td>9.2</td>
<td>7</td>
</tr>
<tr>
<td>Comparison Period</td>
<td>10</td>
<td>10.4</td>
<td>9</td>
</tr>
<tr>
<td>Reduction Quotient</td>
<td>.90</td>
<td>.94</td>
<td>.78</td>
</tr>
</tbody>
</table>

**Average Weekly FTE comparison for 24 weeks**

<table>
<thead>
<tr>
<th>Period</th>
<th>Hours Paid Method</th>
<th>Simplified Method Alternative 1 (for Period)</th>
<th>Simplified Method Alternative 2 (by Week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covered Period</td>
<td>9.2</td>
<td>9.2</td>
<td>6.75</td>
</tr>
<tr>
<td>Comparison Period</td>
<td>10</td>
<td>10.4</td>
<td>9</td>
</tr>
<tr>
<td>Reduction Quotient</td>
<td>.92</td>
<td>.88</td>
<td>.75</td>
</tr>
</tbody>
</table>

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See IFR on Loan Forgiveness issued May 22, 2020, “d. How should a borrower calculate its number of full-time equivalent employees?” p. 17; see also, Loan Forgiveness Application, Instructions for Schedule A Worksheet, “Average FTEs” p.7

This goes in Schedule A Worksheet of the Loan Forgiveness Application

Take the amounts from the Schedule A Worksheet and enter in Schedule A of the Loan Forgiveness Application

Exceptions 1 is derived from the Flexibility Act, which added new Section 1106 (d) (7). It is addressed in the Interim Final Rule “Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Procedures Interim Final Rule”, originally posted 6/22, on pages 19-22, which adds a new Section III 5b to the Interim Final Rule on Loan Forgiveness, issued May 22. It supersedes the exception in the original rule that covered employees who received a good faith offer to return to work and refused.

Exception 2 is addressed in the Interim Final Rule “Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Procedures Interim Final Rule”, originally posted 6/22, on pages 19-22, which amends Section III 5a of the original Interim Final Rule on Loan Forgiveness.

Exception 3 is addressed in the Interim Final Rule on Loan Forgiveness, Section III 5 h.

This Safe Harbor is established under the PPP Flexibility Act (adding new Section 1106 (d) (8)) and further described in the Interim Final Rule “Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Procedures Interim Final Rule”, originally posted 6/22, on pages 19-22, which amends Section III 5a of the original Interim Final Rule on Loan Forgiveness.

It is Safe Harbor 1 incorporated into in the Loan Forgiveness Application, rev 6/16, as Safe Harbor 1, as described on page 5, and also incorporated in the Loan Forgiveness Application EZ on page 2 as the second certification to be initialed at the bottom

As stated in the Loan Forgiveness Application, rev 6/16: “The Borrower is exempt for the reduction in loan forgiveness based on a reduction in FTE employees …if the Borrower, in good faith, is able to document that it was unable to operate between February 15, 2020 and the end of the Covered Period as before February 15, 2020 due to compliance with requirements established or guidance issued between March 1, 2020 and December 31, 2020 by the Secretary of Health and Human Services, Director of the Centers for Disease Control and Prevention or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing or any other worker or customer safety requirement related to COVID.”

This Safe Harbor is established under the original PPP Act (Section 1106 (d) (5)) and described in the Interim Final Rule on Loan Forgiveness, originally posted on May 22, 2020, Section III 5 g. It was modified to extend the deadline to December 31, 2020 in Interim Final Rule “Revisions to Loan Forgiveness Interim Final Rule and SBA Loan Procedures Interim Final Rule”, originally posted 6/22, on page 19.

It is Safe Harbor 2 incorporated into in the Loan Forgiveness Application, rev 6/16, and described on page 5.

As stated in the Loan Forgiveness Application, rev 6/16: “The Borrower is exempt from the reduction in loan forgiveness based on a reduction in FTE employees….if both of the following conditions are met: (a) the Borrower reduced its FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and (b) the Borrower then restored its FTE employee levels by not later than December 31, 2020 to its FTE employee levels in the Borrower’s pay period that included February 15, 2020.”

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