EASTWEST BANK

SBA Paycheck Protection Program (PPP)
Guide for Loan Forgiveness

The Treasury Department and the SBA recently released the application form and instructions for loan forgiveness. The forgiveness forms, instructions and worksheets can be downloaded here.

PPP borrowers must apply for loan forgiveness with the lender that processed the loan. This guide is designed to help you understand the process by which your loan forgiveness amount will be calculated and the overall approach of the loan forgiveness process.

All, or a portion, of your loan can be forgiven

The amount of loan forgiveness can be up to the full principal amount of the loan and any accrued interest. That is, you will not be responsible for any loan payment if you use all of the loan proceeds for forgivable purposes and if employee and compensation levels are maintained.

Eligible expenses for forgiveness

The actual amount of loan forgiveness will depend, in part, on the total amount of funds spent on eligible expenses during the Covered Period:

- Payroll expenses (same used in the Average Monthly Payroll calculation),
    - Salaries and wages (not to exceed more than $15,385 per employee)
        - Payments for vacation, parental, family, medical or sick leave;
        - Severance payments;
    - Employer-paid contributions for group health care benefits, including premiums;
    - Employer-paid contributions for retirement benefits; and
    - Employer-paid state and local taxes assessed on the compensation of employees.

    Note: For an independent contractor or sole proprietor, payroll costs only include wages, commissions, income or net earnings from self-employment, or similar compensation.

- Non-Payroll expenses
    - Mortgage interest payments for the business on real or personal property (debt incurred before Feb 15, 2020);
    - Rent or lease payments for the business on real or personal property (lease in force before Feb 15, 2020); and
    - Utility payments for the business for electricity, gas, water, transportation, telephone or internet access (service began before Feb 15, 2020).

    Note: For an independent contractor or sole proprietor, you must have claimed or be entitled to claim a deduction for these expenses on your 2019 Form 1040 Schedule C in order to claim them as expenses eligible for PPP loan forgiveness in 2020.

All funds must be used within the first eight weeks (the "Covered Period")

For loan proceeds to be forgiven, they must be spent within eight weeks from the date that the loan proceeds were first disbursed or received by you. This eight-week period is called the "Covered Period." For example, if you received your PPP loan on Monday, April 20, the first day of the Covered Period was April 20 and the last day of the Covered Period is Sunday, June 14.

Some borrowers can choose to use the "Alternative Payroll Covered Period"

For administrative convenience, companies with a bi-weekly (or more frequent) payroll schedule may elect to calculate eligible payroll costs using the eight-week (56-day) period that begins on the first day of their first pay period following the date you received your PPP loan (the "Alternative Payroll Covered Period").

For example, if you received your PPP loan proceeds on Monday, April 20, and the first day of your first pay period following your PPP loan disbursement was Sunday, April 26, the first day of the Alternative Payroll Covered Period was April 26 and the last day of the Alternative Payroll Covered Period is Saturday, June 20.

Borrowers who elect to use the Alternative Payroll Covered Period must apply the Alternative Payroll Covered Period wherever there is a reference in this application to "the Covered Period or the Alternative Payroll Covered Period." However, Borrowers must apply the Covered Period (not the Alternative Payroll Covered Period) wherever there is a reference in this application to "the Covered Period" only.

For purpose of forgiveness, at least 75% of the funds must be spent on payroll

The SBA has determined that at least 75% of the PPP funds should be spent on payroll, in light of the Act's overarching focus on keeping workers paid and employed.

Further, the amount allowed to spend on non-payroll expenses is directly tied to the amount of eligible payroll. If you are unsure how to estimate how much you can have forgiven for non-payroll costs, it will always be one-third of how much you expect to be forgiven for payroll costs. For instance, if a borrower spends $300,000 on eligible payroll expenses, the most that could be forgiven for non-payroll costs is $100,000 (25% of the $400,000 spent in total).

Your forgiveness amount may be reduced if you do not maintain FTE levels or reduce an employees' wages by 25% or more

The SBA is using two different methods to determine if you maintained payroll compared to the previous year. Both tests must be measured and used. They are not an either/or choice.

Test #1: You maintained the same level of Full-Time Equivalent employees

Your loan forgiveness will be reduced if the average number of weekly full-time equivalent employees (FTEs) during the Covered Period or Alternative Payroll Covered Period is less than the average number of FTEs during the lowest of the periods below:

- February 15 to June 30, 2019, or
- January 1 to February 29, 2020, or
- For seasonal employers only, any consecutive 12-week period between May 1 and Sep 15, 2019

Exceptions: You will not be penalized for an FTE reduction for an employee in the following cases:

- You made a good-faith, written offer to rehire the employee during the Covered Period or Alternative Covered Period and that offer was rejected by the employee; or
- An employee was fired for cause, voluntarily resigned or voluntarily requested (and received) a reduction in hours.

Test #2: You did not reduce wages or salaries more than 25% for any <$100k employee

For employees who earned $100,000 or less in 2019 (or were not employed by the borrower in 2019), the borrower's loan forgiveness will be reduced for each employee whose average pay (salary or hourly wage) during the Covered Period or Alternative Payroll Covered Period is less than 75% of their average pay from January 1 to March 31, 2020. The amount of the reduction in loan forgiveness is based on the amount of the reduction in pay.

If you are unable to meet one or both of the above tests, you may still get full forgiveness

PPP was designed to encourage you to maintain or quickly rehire your employees. Therefore, the program has safe harbor mechanisms for both the FTE Reductions test and the Wage/Salary Reductions test.

FTE Safe Harbor: There is no reduction in the forgivable loan amount for borrowers who reduced their FTEs during the period beginning on Feb 15 and ending on April 26, 2020, but who by no later than the pay period that includes June 30th, restored the FTEs to the level that existed during the pay period which included Feb 15th.

Salary/Wage Safe Harbor: Borrowers can avoid having their loan forgiveness amount reduced if they restore an employee's pay. Specifically, if the employee's annual salary or hourly wage on June 30, 2020 is equal to or greater than their annual salary or hourly wage on Feb 15, 2020, the borrower's loan forgiveness is not reduced.

Read through the three provided examples on page 3 for more information.

Loan Forgiveness Example #1 – FTE Reduction Test

On April 15, 2020, Smith's Diner receives its $500,000 PPP loan from East West Bank. Over the next eight weeks (the Covered Period), the company spends $400,000 on payroll expenses and $100,000 on other eligible expenses, such as rent and utilities.

During the eight weeks, the company has four pay periods with an average of 34.0 FTEs. This is a reduction from the 40.0 FTEs they had on average last year from Feb 15, 2019 to June 30, 2019, or from the 45.5 FTEs they had earlier this year from Jan 1, 2020 to Feb 29, 2020. For reference, the company had 42.3 FTEs in the pay period which included Feb 15, 2020.

Because there was a reduction in the average number of FTEs during the Covered Period compared to similar periods last year and or earlier in 2020, Smith's Diner will not be eligible for full forgiveness of its payroll costs. The company experienced a reduction in FTEs of 15%, from 40 to 34 (using the lesser of the two comparison periods) which results in a 15% reduction in loan forgiveness, or $75,000. Assuming East West Bank can verify all other eligible expenses, Smith's Diner will have $425,000 forgiven of their $500,000 PPP loan.

Loan Forgiveness Example #2 – Salary/Wage Reduction Test

Continuing Example #1, three full-time employees of Smith's Diner could not return to work, but the company has decided to keep them on payroll and pay them anyway in order to maintain FTE levels.

Employee A earned $15,000 from Jan 1 to March 31, 2020 ($1,154/week for 13 weeks, or annualized $60,000/year), but is paid a total of $6,923 during the Covered Period ($865/week for 8 weeks, or annualized $45,000/year). The employee was comfortable accepting the decrease since they were being paid for the same number of hours, but are staying at home and not working. Since Smith's Diner still paid Employee A during the Covered Period at least 75% of what he made from Jan 1 to March 31, the company will not have their forgiveness reduced for Employee A.

Employee B also earned $15,000 from Jan 1 to March 31, 2020 (annualized $60,000/year), but is only paid a total of $3,077 during the Covered Period (8 weeks at annualized $20,000/year). This represents a 67% decrease in the annualized salary or wage of Employee B, more than the 25% allowed by PPP. Because of this, Smith's Diner will have their forgiveness reduced by $3,846 for Employee B. The amount of the reduction is based on 8 weeks' worth of the difference between how much Employee B would have been paid if his annualized salary had only been cut by 25% ($6,923 less $3,077 equals $3,846).

Employee C earned $20,000 from Jan 1 to March 31, 2020 (annualized $80,000/year). It should be noted this Employee was paid more than $100,000 by Smith's Diner last year. Since this employee was paid $100,000 or more by Smith's Diner in 2019, they are not subject to the Salary/Wage Reduction test. Effectively, Smith's Diner could reduce their salary or wage more than 25% and not have their forgiveness reduced at all. Remember, only employees who earned $100,000 or less in 2019 are subject to the Salary/Wage reduction test.

Loan Forgiveness Example #3 – Safe Harbor Applications

Continuing Example #2, since the company had 42.3 FTEs for the pay period that included Feb 15, 2020 and had to reduce the number of FTEs between Feb 15 and April 26th, Smith's Diner would be eligible for safe harbor (and full forgiveness) if they were able to restore their FTEs to that level by the pay period which includes June 30, 2020. Through a combination of rehiring furloughed employees and hiring some new FTEs, the June 30 pay period would have 44.6 FTEs. Since that is at, or above, the level of FTEs that Smith's Diner had at the Feb 15, 2020 pay period, the company would not have any reduction in their forgiveness due to the FTE Reduction test in Example #1.

Also, although the company reduced Employee B's annualized wages in Example #2, as of the pay period which includes June 30, 2020, Smith's Diner has restored the salaries and hourly wages of every employee back to 100% or more of what they were earning during the pay period which included Feb 15, 2020. Since all salaries and hourly wages are fully restored, the company will not have any reduction in their forgiveness due to the Salary/Wage Reduction test in Example #2.

It is important to note that the Safe Harbor features of the PPP program are an all or nothing proposition. If, by the pay period which includes June 30, 2020, Smith's Diner increases FTEs back to 99% of the Feb 15 pay period, or increases all but one employee back to 100% or more of their annual salary or hourly wage from the Feb 15 pay period, the company would not have met either Safe Harbor proposition. The Diner must be at 100% or more in each case to meet the Safe Harbor provisions.

Any outstanding amount unspent or unforgiven will still be owed to the Bank

You should make every effort to use all of the funds provided on eligible expenses, as these expenses are able to be forgiven on a dollar-for-dollar basis. Any unspent amounts or funds used toward ineligible expenses will still be owed by you to the Bank. Terms of the loan are as follows:

- Two-year term (starting from the date the loan was originated)
- 1% interest rate
- First six payments will be deferred (interest will still accrue during this period)
- After deferral period, monthly interest-only payments with principal balance due at maturity
- Loan must be repaid in full by maturity date
- No personal guarantees required
- No collateral required

The Bank will need to verify eligible expenses

After the Covered Period has completed, you will need to submit proof to the Bank that the funds were used to pay for eligible expenses. You will also need to provide payroll data to show that you maintained staffing and wages at levels similar to pre-COVID-19 time periods. Only expenses paid during the Covered Period or Alternative Payroll Covered Period will be considered eligible.

Documents that can be used for verification of eligible expenses

Payroll: Documentation verifying the eligible cash compensation and non-cash benefit payments from the Covered Period or Alternative Payroll Covered Period consisting of <u>each</u> of the following:

a. Bank account statements or third-party payroll service provider reports documenting the amount of cash compensation paid to employees.
b. Tax forms (or equivalent third-party payroll service provider reports) for the periods that overlap with the Covered Period or the Alternative Payroll Covered Period:
    i. Payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941); and
    ii. State quarterly business and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state.
c. Payment receipts, cancelled checks or account statements documenting the amount of any employer contributions to employee health insurance and retirement plans that you included in the forgiveness amount.

Full-Time Equivalent (FTE) Staffing Levels: Documentation showing (choose one of the date ranges):

a. The average number of FTE employees on payroll per month you employed between Feb 15, 2019 and June 30, 2019; or
b. The average number of FTE employees on payroll per month you employed between January 1, 2020 and Feb 29, 2020; or
   in the case of a seasonal employer, the average number of FTEs employees on payroll per month employed by the Borrower between Feb 15, 2019 and June 30, 2019; between January 1, 2020 and Feb 29, 2020; or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

Documents may include payroll tax filings reported, or that will be reported, to the IRS (typically, Form 941) and state quarterly business (CA DE9 or NYS-45) and individual employee wage reporting and unemployment insurance tax filings reported, or that will be reported, to the relevant state. Documents submitted may cover periods longer than the specific time period.

Nonpayroll: Documentation verifying existence of the obligations/services prior to Feb 15, 2020 and eligible payments from the Covered Period.

a. Business mortgage interest payments: Copy of lender amortization schedule and receipts or cancelled checks verifying eligible payments from the Covered Period; or lender account statements from Feb 2020 and the months of the Covered Period through one month after the end of the Covered Period verifying interest amounts and eligible payments.
b. Business rent or lease payments: Copy of current lease agreement and receipts or cancelled checks verifying eligible payments from the Covered Period; or lessor account statements from Feb 2020 and from the Covered Period through one month after the end of the Covered Period verifying eligible payments.
c. Business utility payments: Copy of invoices from Feb 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

If you have any questions, please call your Relationship Manager or Branch Manager.

Loan Forgiveness Submissions will most likely not begin until after June 30th

You will most likely not start submitting forgiveness applications until after June 30, 2020. Since the Safe Harbor provisions can be based on the payroll inclusive of that date, you will not have all the payroll data until that pay period is completed. Second, the PPP Forgiveness Application requires you to submit certain 2nd Quarter 2020 tax forms. You will not be able to complete these until the 2nd quarter is completed. Although the SBA has not set a deadline for when forgiveness applications must be submitted, we recommend you not wait too long. The Bank has up to 60 days after you submit to take action on your forgiveness application.

Other Frequently Asked Questions

Will my loan forgiveness amount be reduced if I laid-off or reduced the hours of an employee, then offered to rehire the same employee for the same salary and same number of hours, or restore the reduction in hours, but the employee declined the offer?

No. Employees whom a borrower offers to rehire are generally exempt from the CARES Act's loan forgiveness reduction calculation. This exemption is also available if the borrower previously reduced the hours of an employee and offered to restore the employee's hours at the same salary or wages. Specifically, in calculating the loan forgiveness amount, the borrower may exclude any reduction in full-time equivalent employee headcount that is attributable to an individual employee if:

1. The borrower made a good faith, written offer to rehire such employee (or, if applicable, restore the reduced hours of such employee) during the covered period or the alternative payroll covered period;
2. The offer was for the same salary or wages and same number of hours as earned by such employee in the last pay period prior to the separation or reduction in hours;
3. The offer was rejected by such employee;
4. The borrower has maintained records documenting the offer and its rejection; and
5. The borrower informed the applicable state unemployment insurance office of such employee's rejected offer of reemployment within 30 days of the employee's rejection of the offer. *(Further*

information regarding how borrowers will report information concerning rejected rehire offers to state unemployment insurance offices will be provided on SBA's website.)

Are salary, wages, or commission payments to furloughed employees; bonuses; or hazard pay during the covered period eligible for loan forgiveness?

Yes. The CARES Act defines the term "payroll costs" broadly to include compensation in the form of salary, wages, commissions or similar compensation. If a borrower pays furloughed employees their salary, wages or commissions during the covered period, those payments are eligible for forgiveness as long as they do not exceed an annual salary of $100,000, as prorated for the covered period.

Are there caps on the amount of loan forgiveness available for owner-employees and self-employed individuals' own payroll compensation?

Yes, the amount of loan forgiveness requested for owner-employees and self-employed individuals' payroll compensation can be no more than the lesser of 8/52 of 2019 compensation (i.e., approximately 15.38 percent of 2019 compensation) or $15,385 per individual in total across all businesses.

In particular, owner-employees are capped by the amount of their 2019 employee cash compensation and employer retirement and health care contributions made on their behalf. Schedule C filers are capped by the amount of their owner compensation replacement, calculated based on 2019 net profit. General partners are capped by the amount of their 2019 net earnings from self-employment (reduced by claimed section 179 expense deduction, unreimbursed partnership expenses, and depletion from oil and gas properties) multiplied by 0.9235.

No additional forgiveness is provided for retirement or health insurance contributions for self-employed individuals, including Schedule C filers and general partners, as such expenses are paid out of their net self-employment income.

When must nonpayroll costs be incurred and/or paid to be eligible for forgiveness?

A nonpayroll cost is eligible for forgiveness if it was (1) paid during the covered period; or (2) incurred during the covered period and paid on or before the next regular billing date, even if the billing date is after the covered period.

<u>Example:</u> A borrower's covered period begins on June 1 and ends on July 26. The borrower pays its May and June electricity bill during the covered period and pays its July electricity bill on August 10, which is the next regular billing date. The borrower may seek loan forgiveness for its May and June electricity bills, because they were paid during the covered period. In addition, the borrower may seek loan forgiveness for the portion of its July electricity bill through July 26 (the end of the covered period), because it was incurred during the covered period and paid on the next regular billing date.

Are advance payments of interest on mortgage obligations eligible for loan forgiveness?

No. Advance payments of interest on a covered mortgage obligation are not eligible for loan forgiveness.

What does "full-time equivalent employee" mean?

Full-time equivalent employee means an employee who works 40 hours or more, on average, each week. The hours of employees who work less than 40 hours are calculated as proportions of a single full-time equivalent employee and aggregated.

How should a borrower calculate its number of full-time equivalent (FTE) employees?

Borrowers seeking forgiveness must document their average number of FTE employees during the covered period (or the alternative payroll covered period) and their selected reference period. For purposes of this calculation, borrowers must divide the average number of hours paid for each employee per week by 40, capping this quotient at 1.0. For example, an employee who was paid 48 hours per week during the covered period would be considered to be an FTE employee of 1.0.

For employees who were paid for less than 40 hours per week, borrowers may choose to calculate the full-time equivalency in one of two ways. First, the borrower may calculate the average number of hours a part-time employee was paid per week during the covered period. For example, if an employee was paid for 30 hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.75. Similarly, if an employee was paid for 10 hours per week on average during the covered period, the employee could be considered to be an FTE employee of 0.25. Second, for administrative convenience, borrowers may elect to use a full-time equivalency of 0.5 for each part-time employee. The SBA recognizes that not all borrowers maintain hours-worked data, and has decided to afford such borrowers this flexibility in calculating the full-time equivalency of their part-time employees.

Borrowers may select only one of these two methods and must apply that method consistently to all of their part-time employees for the covered period or the alternative payroll covered period and the selected reference period. In either case, the borrower shall provide the aggregate total of FTE employees for both the selected reference period and the covered period or the alternative payroll covered period, by adding together all of the employee-level FTE employee calculations. The borrower must then divide the average FTE employees during the covered period or the alternative payroll covered period by the average FTE employees during the selected reference period, resulting in the reduction quotient.

What effect does a borrower's reduction in employees' salary or wages have on the loan forgiveness amount?

A reduction in an employee's salary or wages in excess of 25% will generally result in a reduction in the loan forgiveness amount, unless an exception applies. Specifically, for each new employee in 2020 and each existing employee who was not paid more than the annualized equivalent of $100,000 in any pay period in 2019, the borrower must reduce the total forgiveness amount by the total dollar amount of the salary or wage reductions that are in excess of 25% of base salary or wages between January 1, 2020 and March 31, 2020 (the reference period), subject to exceptions for borrowers who restore reduced wages or salaries (see g. below). This reduction calculation is performed on a per employee basis, not in the aggregate.

<u>Example:</u> A borrower reduced a full-time employee's weekly salary from $1,000 per week during the reference period to $700 per week during the covered period. The employee continued to work on a full-time basis during the covered period with an FTE of 1.0. In this case, the first $250 (25% of $1,000) is exempted from the reduction. Borrowers seeking forgiveness would list $400 as the salary/hourly wage reduction for that employee (the extra $50 weekly reduction multiplied by eight weeks).

How should borrowers seeking loan forgiveness account for the reduction based on a reduction in the number of employees relative to the reduction relating to salary and wages?
To ensure that borrowers are not doubly penalized, the salary/wage reduction applies only to the portion of the decline in employee salary and wages that is *not* attributable to the FTE reduction.

The Act does not address the intersection between the FTE employee reduction provision and the salary/wage reduction provision. To help ensure uniformity across all borrowers in applying the FTE reduction provision and the salary/wage reduction provision, the SBA, in consultation with the Secretary, has determined that the salary/wage reduction applies only to the portion of the decline in employee salary and wages that is *not* attributable to the FTE reduction. This approach will help ensure that borrowers are not doubly penalized for reductions.

<u>Example:</u> An hourly wage employee had been working 40 hours per week during the borrower selected reference period (FTE employee of 1.0) and the borrower reduced the employee's hours to 20 hours per week during the covered period (FTE employee of 0.5). There was no change to the employee's hourly wage during the covered period. Because the hourly wage did not change, the reduction in the employee's total wages is entirely attributable to the FTE employee reduction and the borrower is not required to conduct a salary/wage reduction calculation for that employee.

If I restore reductions made to employee salaries and wages or FTE employees by not later than June 30, 2020, can I avoid a reduction in my loan forgiveness amount?
Yes. If certain employee salaries and wages were reduced between Feb 15, 2020 and April 26, 2020 (the safe harbor period) but you eliminate those reductions by June 30, 2020 or earlier, you are exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in salaries and wages under section 1106(d)(3) of the CARES Act. Similarly, if you eliminate any reductions in FTE employees occurring during the safe harbor period by June 30, 2020 or earlier, you are exempt from any reduction in loan forgiveness amount that would otherwise be required due to reductions in FTE employees.

Will my loan forgiveness amount be reduced if an employee is fired for cause, voluntarily resigns or voluntarily requests a schedule reduction?
No. When an employee of the borrower is fired for cause, voluntarily resigns or voluntarily requests a reduced schedule during the covered period or the alternative payroll covered period (FTEs reduction event), the borrower may count such employee at the same full-time equivalency level before the FTE reduction event when calculating the section 1106(d)(2) FTE employee reduction penalty.

I received an Economic Injury Disaster Loan (EIDL) for $100,000. Does the PPP change that since I have to report it on the Forgiveness Application? The EIDL loan was obtained after April 3, 2020.
No, only EIDLs received before April 3, 2020 need to be paid pack (almost every borrower we have seen received their EIDL after this date). Second, even if you received it before April 3, you would have had to declare it on your PPP loan application and the bank would have increased your PPP loan by the amount of your EIDL (less the first $10,000 which is actually a grant) in order to pay off the SBA in full.

The only thing you need to do is fill out the original amount of your EIDL and your EIDL application number on the PPP Loan Forgiveness Application. However, this is for record keeping only. It does not mean the EIDL amount will automatically be reduced from your forgiveness amount.

If payroll is paid semi-monthly or monthly, can I use the Alternative Payroll Covered Period?
No. The application clearly states that only companies with bi-weekly (or more frequent) pay periods can use the Alternative Payroll Covered Period.

For non-payroll expenses, are leases for equipment qualified for forgiveness?
Eligible covered rent obligations are business rent or lease payments pursuant to lease agreements for real or personal property in force before Feb 15, 2020. This would include operating leases on automobiles used for business purposes or other leased business equipment. Although not explicitly excluded, we do not know if this includes capitalized leases as well.

The application form listed transportation cost as utilities, other than gas cost. So, what kind of expenses are included in transportation?
The CARES Act allows for transportation costs. The only SBA guidance we have as of now on this point is for self-employed individuals. This guidance states that gas used for driving a business vehicle is a forgivable use of PPP loan proceeds. This suggests gas expenses and expenses from the standard mileage allowance may be permitted, but we need more definitive guidance.

Are interest rate swap expenses considered part of "qualified business mortgage obligations"?
This has not been discussed by the SBA. However, we think the borrower can only count what would be the actual interest expense in the note. If you are "out of the money" on a swap, that payment needs to come out of pocket and is not considered an eligible expense per PPP.

The last page of the SBA's Loan Forgiveness Application is the Optional Borrower Demographic Information Form. Do I need to complete this for submission?
No. It is an entirely optional page used by the SBA for their records. However, if you do submit it, we will accept it and report the information back to the SBA.

We have some employees on commission and because of the market--that has dropped. We are paying them per an employment agreement but the amount is less--that still qualifies, correct?
If the amount dropped more than 25% for any individual employee, it will affect the forgiveness amount. It may be beneficial to calculate how much they earned from Jan 1 to March 31, 2020 and pay them the 8-week equivalent of that amount during the Covered Period, salary and commission included.

In PPP Schedule A, line 9, it says "compensation to owners." What is it? Should owner-employee's payroll be included in line 1 or line 9? Does it affect the loan forgiveness?
This is where you include the compensation paid to the owners, owner-employees, sole proprietors or general partners. It will not be included on Line 1 as that would be double counting. Please remember that compensation to each individual owner must not exceed $15,385 each or the amount they included as their self-employment earnings on their 2019 tax return.

If a utility bill is due at the beginning of each month, but the Covered Period started in the middle of the month, do I need to pro-rate the bill for the amount not included in the Covered Period?
No. An eligible non-payroll cost must be (1) paid during the Covered Period or (2) incurred during the Covered Period and paid on or before the next regular billing date, even if the billing date is after the Covered Period. It does not need to be pro-rated.

What kind of phone bill is eligible for forgiveness?
Landlines, cell phones, internet, etc. are all eligible telecommunications utilities.