



The SBA rules for the Paycheck Protection Program (PPP) were revised in June to address changes made in the Paycheck Protection Program Flexibility Act, which was passed on June 5, 2020. In addition, the SBA has published two PPP Loan Forgiveness applications. Loan Forgiveness Application [Form 3508EZ](#) may be used by certain borrowers, such as those who are self-employed or have no employees, and Form 3508 will be used for all other borrowers. We recommend you consult your accountant, lawyer, or other advisor regarding any specific questions you may have regarding your PPP loan and the current guidance.

Sterling is providing the following Frequently Asked Questions (FAQs), based on the PPP Loan Forgiveness SBA Rules and Guidance published in June 2020 and is subject to change. Sterling makes no representation or warranty as to whether any borrower will be eligible for forgiveness.

Q. What if I do not have a PPP loan? Are they still available?

A. The deadline for applying for an SBA PPP loan was extended to August 8, 2020. However, Sterling is no longer accepting PPP loan applications.

Q. Is loan forgiveness automatic?

A. No, you must submit a Forgiveness application through Sterling online.

Q. How must I use my loan proceeds to be eligible for forgiveness?

A. You must use at least 60% of funds for eligible payroll costs to qualify for full loan forgiveness. This is a decrease from 75%. You can use up to 40% of funds for certain eligible non-payroll costs: mortgage interest, business utilities and business rent. This is an increase from 25%.

Q. How do I apply for PPP Forgiveness? What do I need to do?

A. If you received your PPP Loan from Sterling, you will receive an email invitation in the near future. You should collect and have ready documentation to support eligible payroll and non-payroll costs.

Q. Am I entitled to have my PPP loan forgiven?

A. A borrower who obtains a PPP loan is entitled to have some, or all, of the loan forgiven if the borrower incurs certain types of expenses and pays them during the 24 weeks after the loan is made, but in no event later than December 31, 2020.

Q. Should I use Form 3508EZ or Form 3508 to apply for forgiveness?

A. You may be able to use Form 3508EZ if you:

(a) Are self-employed and have no employees; or

(b) did not reduce the salaries or wages of your employees by more than 25%, and did not reduce the number or hours of your employees; or

(c) experienced reductions in business activity as a result of health directives related to COVID-19, and did not reduce the salaries or wages of your employees by more than 25%.



Otherwise, you may have to use Form 3508.

Click on this [link](#) to see a Form 3508EZ. Click on this [link](#) to see a Form 3508.

Q. What information is required if I can use Form 3508EZ and Form 3508?

A. You must submit eligible payroll and, to the extent necessary, non-payroll costs on the SBA Form 3508EZ and on the Form 3508. You may choose to submit the PPP Borrower Demographic Information Form.

Q. What is my PPP Loan Disbursement Date?

A. This is the date that you received your PPP loan proceeds.

Q. What is the Covered Period?

The Covered Period is either (i) the 24-week (168-day) period beginning on the PPP Loan Disbursement Date, or (ii) the 8-week (56-day) period beginning on the PPP Loan Disbursement Date if you received your PPP loan before June 5, 2020, and elect to use an eight-week (56-day) Covered Period.

The Covered Period cannot extend beyond December 31, 2020.

Q. What is the Alternative Payroll Covered Period?

A. This may be a consideration for borrowers that have a biweekly (or more frequent) payroll schedule. You can always choose the Covered Period.

For loans funded before June 5, 2020, you may elect to calculate eligible payroll costs using either

- o the 24-week (168-day) period that begins on the first day of your first pay period following your PPP Loan Disbursement Date, or
- o the 8-week (56-day) period that begins on the first day of your first pay period following your Loan Disbursement Date.

If you elect to use any Alternative Payroll Covered Period, you must apply the Alternative Payroll Covered Period wherever there is a reference in the application to “the Covered Period or the Alternative Payroll Covered Period.” However, you must apply the Covered Period - not the Alternative Payroll Covered Period - wherever there is a reference in the application to “the Covered Period” only. The Alternative Payroll Covered Period cannot extend beyond December 31, 2020.

Q. When does the 8-week or 24-week Covered Period begin for spending that may be eligible for forgiveness?

A. It begins on the date the loan funds were deposited in your Sterling or other bank account. Look for the date in your account transaction history when the PPP loan funds were deposited in your Sterling Account. If you are using the Alternative Payroll Covered Period, it starts on the first day of your first pay period following your loan disbursement date.

Q. When do I need to use the loan proceeds to be eligible for loan forgiveness?

A. You need to use the funds within the Covered Period or the Alternative Payroll Covered Period.



Q. If I spent my loan funds in the 8-week or 24-week Covered Period or Alternative Payroll Covered Period, is it possible that I could receive forgiveness on both the loan amount and the interest?

A. Yes, if the SBA approves your request for forgiveness and you meet all the SBA rules.

Q. Can I request forgiveness if I didn't use all of my loan funds within the Covered Period?

Based on the latest SBA announcements, you may be eligible for partial forgiveness. It is recommended that borrowers use all of PPP funds before requesting forgiveness.

Q. What payroll costs qualify for forgiveness?

A. Payroll costs consist of compensation to your employees (whose principal place of residence is the United States) in the form of salary, wages, commissions, or similar compensation; cash tips or the equivalent (based on employer records of past tips or, in the absence of such records, a reasonable, good-faith employer estimate of such tips); payment for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payment for the provision of employee benefits consisting of group health care coverage, including insurance premiums, and retirement; payment of state and local taxes assessed on compensation of employees; and for an independent contractor or sole proprietor, wages, commissions, income, or net earnings from self-employment, or similar compensation.

Q. What payroll documentation will I need to submit to Sterling with my loan forgiveness request?

A. The SBA has shared the following guidance on what payroll documentation will be needed to verify the eligible cash compensation and non-cash benefit payments from the Covered Period or the Alternative Payroll Covered Period consisting of each of the following:

- (a) bank account 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 such as (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.

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 should also be submitted.

Q. Do I need to submit non-payroll documentation if I used all of my PPP loan proceeds for payroll costs?

A. No.

Q. What types of documentation for non-payroll expenses will I need to submit to Sterling?

A. There are three different types of non-payroll expense information that you may submit:

- (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 February 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 February 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 February 2020 and those paid during the Covered Period and receipts, cancelled checks, or account statements verifying those eligible payments.

Q. Do mortgage principal and pre-payments qualify for forgiveness?

A. No. Only mortgage interest qualifies.

Q. What reference period do I use to compare my FTE level during the Covered Period?

A. The selected time period must be the same time period selected for purposes of completing PPP Schedule A, line 11. You should elect either:

- (a) the average number of FTE employees on payroll per week you employed between February 15, 2019 and June 30, 2019;
- (b) the average number of FTE employees on payroll per week you employed between January 1, 2020 and February 29, 2020; or
- (c) in the case of a seasonal employer, the average number of FTE employees on payroll per week you employed between February 15, 2019 and June 30, 2019; between January 1, 2020 and February 29, 2020; or any consecutive 12-week period between May 1, 2019 and September 15, 2019.

Q. Will my loan forgiveness amount be reduced if I have a reduction in full time equivalent (FTE) employees?

A. It may be reduced if your average weekly FTE employees during the Covered Period or Alternative Payroll Covered Period was less than during your chosen reference period and doesn't meet Full-time Equivalency (FTE) Reduction Safe Harbor rules.

Q. What are the FTE Reduction Safe Harbor rules/exceptions?

A. These exceptions exempt you from a loan forgiveness reduction based on FTE employee levels if you document:

- (a) any positions for which you made a good-faith, written offer to rehire an individual who was an employee on February 15, 2020 and you were unable to hire similarly qualified employees for unfilled positions on or before December 31, 2020;
- (b) any positions for which you made a good-faith, written offer to restore any reduction in hours, at the same salary or wages, during the Covered Period or the Alternative Covered Period and the employee rejected the offer, and
- (c) any employees who during the Covered Period or the Alternative Payroll Covered Period were fired for cause, voluntarily resigned, or voluntarily requested and received a reduction



of hours. In all of these cases, include these FTEs only if the position was not filled by a new employee.

Q. How will I know if the FTE Reduction Safe Harbor rules/exceptions apply to me?

A. They apply if:

(a) in good faith, you are able to document that you were unable to operate between February 15, 2020, and the end of the Covered Period at the same level of business activity 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, the 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-19.

(b) you reduced your FTE employee levels in the period beginning February 15, 2020, and ending April 26, 2020; and you then restored your FTE employee levels by not later than December 31, 2020 to your FTE employee levels in the pay period that included February 15, 2020.

Q. Will I lose forgiveness if I terminate employees?

A. As a general rule, you do, although there are exceptions. For example, if the reduction is the result of former employees who were terminated for cause or voluntarily resigned, you do not have to count that reduction. You are not penalized if you are unable to rehire former employees and cannot hire similarly qualified new employees. You are also not penalized if you are unable to return to the same level of business as a result of restrictions or guidelines of HHS, CDC or OSHA.

Q. Do I have to hire back the same people that I terminated in order to avoid losing forgiveness due to a reduction in headcount?

A. No. This is another common misunderstanding. You measure full-time equivalent employees versus full-time equivalent employees on an aggregate basis, without regard to the exact identity of the individual employees. The exact identity of the employee is relevant if you offer reemployment and your offer is refused; if you terminate for cause; if an employee voluntarily resigns; or if an employee voluntarily requests a reduction in hours. In any of these cases, hiring a replacement just increases average FTEs.

Q. How long after I submit my forgiveness application will I find out how much of the debt is forgiven?

A. You should get an initial determination from your lender within 60 days after you submit a complete application. The date of actual forgiveness of a loan will vary.

Q. How long can I defer payment of my PPP loan?

A. You may defer payments for 10-months after your Covered Period ends if you do not apply for forgiveness.