



August 24, 2020

Paycheck Protection Program: Preparing for Loan Forgiveness Update

Thank you for choosing Middlefield Bank to process and service your Paycheck Protection Program loan. We are proud to be able to assist you and our community during this difficult time.

Currently, Congress continues to discuss changes to the program forgiveness guidelines and Middlefield Bank is monitoring those discussions in order to ensure that forgiveness process is as customer friendly as possible. For that reason, the Bank is holding off on opening the forgiveness portal because Congressional action in the near future could significantly change the process for many loan recipients and the Bank does not want to have customers needlessly entering an application and then have the need to re-enter a different application when Congress finalizes the forgiveness rules.

We appreciate your patience with this process and you can be assured that Middlefield Bank will be prepared to process your forgiveness applications as quickly as possible once Congress finalizes the forgiveness process.

Below we've included some information based on the PPP Flexibility Act and how you should go about submitting your loan forgiveness application to Middlefield Bank based on the rules that are publicized as of August 24, 2020.

What is my loan forgiveness period?

If your loan was made on or after June 5, 2020:

Your loan forgiveness period is 24 weeks after your loan was disbursed or December 31, 2020, whichever of the two is earlier.

If your loan was made before June 5, 2020:

You may choose between an 8-week or 24-week loan forgiveness period. If you do not give us notice of your preference, your loan forgiveness period will be 24 weeks after loan disbursement or December 31, 2020, whichever is earlier.

What can I use my PPP loan funds for?

Only the following uses of loan funds are eligible for forgiveness:

- Payroll—salary, wage, vacation, parental, family, medical, or sick leave, health benefits;
- Business Mortgage interest—as long as the mortgage was signed before February 15, 2020;
- Business Rent —as long as the agreement was in effect before February 15, 2020; and
- Business Utilities—as long as service began before February 15, 2020.

For full loan forgiveness, at least 60% of loan proceeds must be used for payroll costs. This means that no more than 40% of loan proceeds may be used for the other three purposes—business mortgage interest, business rent, and business utilities.

How do I submit my loan forgiveness application?

A successful forgiveness application is going to require good recordkeeping and bookkeeping in order to maximize your loan forgiveness amount. Keep diligent track of all eligible expenses and their accompanying documentation for your covered forgiveness period. We recommend that you contact your tax advisor, legal counsel, and/or bookkeeping service to assist your business if necessary.

The loan forgiveness applications and borrower instructions can be found on our website via <https://www.middlefieldbank.bank/ppp>. The bank will accept forgiveness applications via an online portal. This portal will allow you to upload supporting documentation to your forgiveness application. As noted above, the finalization of this portal is pending the finalization of action by Congress. Please note that the deadline for submitting a forgiveness application is 10 months after the end of the covered period.

Once the bank has notified you that the portal is available, please submit all of the following (as applicable) so we can begin processing your loan forgiveness application:

1. **Loan Forgiveness Application** (SBA Form 3508 or 3508EZ)
2. **PPP Loan Forgiveness Calculation Form**
3. **PPP Schedule A**
4. **Payroll Documentation** – Documents verifying eligible cash compensation and non-cash benefits of the following:
 - Payroll reports or account statements documenting the cash compensation paid to employees;
 - Payroll tax filings (typically IRS Form 941);
 - Income, payroll, and unemployment insurance filings to your State; and
 - Receipts, cancelled checks, or statements for any employer contributions to employee health insurance and retirement plans that you included in PPP Schedule A, lines 6 and 7.
5. **Nonpayroll Documentation** – Documents verifying that the following items existed prior to February 15, 2020 and that eligible payments were made during the covered forgiveness period. Payments can be documented using receipts, cancelled checks, and/or account statements.
 - a. Business Mortgage interest— copy of lender amortization schedule and payment documentation during covered period.
 - b. Business Rent — copy of current lease agreement and payment documentation during covered period.
 - c. Business Utilities—copy of invoices from February 2020 and those paid during the covered period, and payment documentation from the covered period.
6. **Employee Documentation** – Documentation showing the average number of FTE employees for the time period you selected in line 11 of PPP Schedule A. Documents may include payroll tax filings on IRS Form 941, state quarterly business and individual employee wage reporting and unemployment insurance tax filings reported to your State. Documents may cover periods longer than the time period you selected.

NOTE: You must retain all other PPP documentation in your files for six (6) years after the date the loan is forgiven or repaid in full, and allow authorized representatives of SBA or the Office of Inspector General to access these files upon request.

Once we receive your completed Loan Forgiveness Application and supporting documentation via the online portal, Middlefield Bank will thoroughly review the applications under the existing laws, regulations, and guidance. Once we receive and review the documentation, we will submit to the SBA to determine whether the loan will be 100% forgiven or subject to partial forgiveness. Once the SBA has given us a final decision, we will inform you of the decision. Keep in mind, the SBA may begin an audit of any PPP loan of any size at any time, subject to its own sole discretion.

Any outstanding balance on your PPP loan which is not forgiven will continue to accrue interest at 1% for the remainder of the loan term. There is no prepayment penalty and you can pay off that outstanding balance at any time without incurring any additional fees. Please refer to your PPP Loan Note for additional terms and conditions.

For additional details on these items, please refer to the U.S. Department of the Treasury's "CARES Act Assistance for Small Businesses" webpage <https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses> U.S. Small Business Administration's "Paycheck Protection Program" webpage <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program> and Middlefield Bank's PPP webpage <https://www.middlefieldbank.bank/ppp>.

Please speak to your lender or contact us at 888.801.1666 with any questions.

Thank you.