

Greetings,

As we begin 2021, we want to wish you and your business a very happy New Year. There were numerous challenges throughout 2020 and we are so proud of each of you for handling the adversity with such grace and determination. I am writing to inform you the United States Congress has passed a new relief bill, The Economic Aid Act, to help support businesses and families through the on-going novel coronavirus (COVID-19) pandemic. Section 311 authorizes the U.S. Small Business Administration to guarantee Paycheck Protection Program (PPP) First Draw Loans and PPP Second Draw Loans under generally the same terms and conditions available during the First Round in Spring 2020.

We are encouraging all our small business borrowers who have been greatly impacted by COVID-19 to consider applying for a loan under this new program by the programs deadline of **May 31st, 2021**, which provides some critical benefits, including:

1. Cash to cover select business expenses (such as employee salaries and payroll support, rent or mortgage and utilities payments, insurance premiums, property damage, PPE costs, etc.)
2. Loan forgiveness (a portion, or possibly all, of your loan may be forgiven as long as proceeds are used on eligible payroll costs). Borrower to repay funds not forgiven.

If you have not yet received a **PPP First Draw Loan** (generally disbursed in Spring / Summer of 2020), you may apply for one now using the **First Draw Loan Application**. If you have received a PPP First Draw Loan, you may apply for a **PPP Second Draw Loan Program** to provide additional funding as long as you:

1. Received and used the full amount of the First Draw Loan by time of application.
2. Are able to verify economic uncertainty makes the loan necessary
3. Are able to prove your business experienced a 25% reduction in Gross Revenue from any quarter in 2020 compared to that same quarter in 2019. Details on this update and others are found below.

Before reaching out to your lender, please read in detail the instructions for the 1st Draw Application, 2nd Draw Application, as well as the FAQ's below. These will cover the majority of customer questions and concerns.

We appreciate your patience and cooperation as we work through this next round of PPP. When you are ready to apply, please securely submit the required information to sba@decorahbank.com, using your business name in the subject line or drop-off documents at the Decorah Bank or Cresco Bank locations.

- Application Form:
<https://home.treasury.gov/policy-issues/cares/assistance-for-small-businesses>

FREQUENTLY ASKED QUESTIONS

FIRST DRAW PPP VS. SECOND DRAW PPP – WHAT’S THE DIFFERENCE?

The “First Draw PPP” is essentially the first round of PPP loans, most of which were made in Spring of 2020. “Second Draw PPP” was authorized on 12/27/2020 with updated rules and regulations. Many facets of Second Draw PPP are similar to the first draw, with a few updates (many highlighted below).

DETERMINING ELIGIBILITY FOR SECOND DRAW PPP:

In order to apply for Second Draw PPP you must:

- 1) Have 300 or less employees
- 2) Have received a First Draw PPP Loan and used proceeds for valid costs
- 3) Experienced a 25% reduction in 2020 Revenue compared to 2019 Revenue

25% REVENUE REDUCTION IN 2020 RELATIVE TO 2019.

- ❖ Calculated by comparing the borrower’s quarterly gross receipts for one quarter in 2020 with the borrower’s gross receipts for the corresponding quarter in 2019.
 - **Ex:** A borrower with gross receipts of \$50,000 in 2nd quarter of 2019 and gross receipts of \$30,000 in 2nd quarter of 2020 has experienced a revenue reduction of 40 percent between the quarters, and is therefore eligible for a Second Draw PPP loan (assuming all other eligibility criteria are met).
 - **Similarly,** a borrower that was in operation in all four quarters of 2019 is deemed to have experienced the required revenue reduction if it experienced a reduction in annual receipts of 25% or more in 2020 compared to 2019 and submits copies of its annual tax forms substantiating the revenue decline.
 - This methodology allows borrowers to use year end statements, such as tax returns, vs. quarterly statements to show eligibility requirements were met.
 - If you were not open in 2019 or are a seasonal business, please reference “IFR for Second Draw PPP” for further information on calculating this reduction.
- ❖ **Note:** Any forgiveness amount of a First Draw PPP Loan that a borrower received in calendar year 2020 is excluded from a borrower’s gross receipts.
- ❖ **For Further Information** – Please reference the “IFR For Second Draw PPP” found on our website.

PAYROLL COST CALCULATIONS:

You may use **one** of the following time periods to calculate your payroll cost:

- 1) Calendar Year 2019 – **Preferred method**
- 2) Calendar Year 2020
- 3) Twelve-month period prior to when the loan is made

Note: If you choose Calendar Year 2019, your back-up requirements to verify payroll costs and your calculations will be the same as First Draw PPP Loan from Spring '20 (unless you are part of the Food Service & Accommodations Sector)*.

*If you are in the Food Service or Accommodation Sector, your loan total will change as you will multiply your monthly payroll by 3.5 instead of the original 2.5. You must have a NAICS code beginning with 72 (as found on your Tax Return).

The maximum loan amount is **\$2,000,000**. Businesses that are part of a single corporate group shall receive no more than **\$4,000,000** of Second Draw PPP Loans in the aggregate.

To calculate Loan Amount (S-Corps, C-Corps, etc) :

1. Add up total payroll costs for the year (2019 or 2020 calendar year)
 - Payroll costs include: cash compensation, employer portion of retirement and health insurance benefits, and state unemployment taxes (do not include federal taxes, medicare, etc).
 - Remember each employee wages is capped at \$100,000 for the year – any amount over \$100,000 must be backed out of your calculation.
2. Divide the total payroll costs by 12. This is your average monthly payroll amount.
3. Multiply by 2.5 (for most businesses).
 - Multiply step 2 by 3.5 if you are in the Food Services or Accommodations Sector.

For administrative ease, please make it clear how you calculated Monthly Average Payroll Costs.

For more details on how to calculate your payroll costs for your individual entity type, please reference pages 27-31 in the “IFR for Second Draw PPP Loans” located on bank website, or refer to Addendum A on the end of this letter. There is also a “PPP Second Draw Loan Analysis” excel file available to show your calculations.

DOCUMENTATION REQUIREMENTS

You are required to submit the following:

- ❖ Completed SBA Paycheck Protection Program Application Form

- ❖ 2019 or 2020 Year-End Payroll Reports (Only send documents for the **single year** used to calculate payroll costs on application.
 - 2019 or 2020 Tax Return, not both
 - Forms 940 (annual) & all forms 941 (quarterly) for 2019 or 2020, not both
 - All Forms W-2's and W-3's
 - Quarterly State Unemployment Insurance (Form UIA)
 - Payroll Summary Report from payroll provider and/or internal report (QuickBooks, etc.)
 - All form 1099's issued during 2019 or 2020
 - Documentation sufficient to establish that the applicant experienced a reduction in revenue must be provided at time of application.
 - This may include tax forms, annual tax forms, quarterly income statements, or bank statements.

- ❖ Additional useful payroll data:
 - Monthly health insurance expenses paid by the company for 2019 or 2020
 - Employer contributions for retirement accounts, and when payments were made
 - Note for retirement contributions: examples might be company-matching, profit share payments, and the like, but not payments for employee deferrals.
 - Please highlight any employees who may reside outside the US.

- ❖ Bank will require all necessary documents to comply with Bank Secrecy Act

APPLICATION FORM

Below is a listing of the types of information required in the PPP Second Draw Application Form.

NAICS Code: The NAICS code helps identify what sector of the economy your business operates. This code can often be found on your tax return.

Average Monthly Payroll: See “Payroll Cost Calculation above”.

X 2.5 (or 3.5 for NAICS 72 applicants): This will be your loan amount.

You will multiply your average monthly payroll cost by 2.5 for most industries and by 3.5 if you are considered a “Food Service or Accommodation” sector. This particular sector will start with NAICS Code 72 and includes businesses like restaurants, hotels, catering, etc.

Number of Employees: This will be a minimum of one. One person equals one employee. This will be at least one as a sole proprietor is considered one employee. You do not need to do a calculation here for FTE like you did in the First Draw.

Purpose of the loan: This is not a science. Choose which categories you are likely to use PPP proceeds.

PPP First Draw SBA Loan Number: This number can be found on the Forgiveness Application for First Draw PPP (submitted Fall / Winter of 2020) or in your Online Banking Portal. This number is 10 digits long.

Reduction in Gross Receipts of at Least 25%: In order to apply for a Second Draw PPP Loan, you are required to certify that your gross receipts were reduced by 25% in a single quarter in 2020 compared to that same quarter in 2019. You will need to submit back up documentation to prove this reduction when you submit your application. If you are unable to prove the drop in Gross Receipts, it is likely some, if not all, of your forgiveness request will be denied. **PPP proceeds from First Draw do not count as income and should not be included in your Gross Receipts calculation.**

2020 Quarter: Identify which quarter in 2020 you are comparing to 2019 to prove the 25% reduction.
Example: 2nd Quarter, 2020.

Gross Receipts: Detail dollar amount of gross receipts received in 2020 quarter.

Reference Quarter: Which quarter you are comparing to prove the 25% reduction.

Gross Receipts: Detail dollar amount of gross receipts received in reference quarter.

QUESTION SECTION: There are 8 questions on page 1 of the application that need to be answered “Yes” or “No”. Questions #4 and #5 need to be initialed as well. **You will need to answer these questions in their entirety in order for the application to be complete.**

DECLARATIONS:

There are 15 declarations you need to verify to be true in order to qualify for Second Draw PPP Loan. You must initial next to all 15 in order for the application to be considered complete.

SIGNATURE: You will need to sign, print, date and include title of signer in order for application to be considered complete.

ADDENDUM A

To calculate Loan Amount (Seasonal Employers):

1. Add up total payroll costs for any 12-week period between February 15th, 2019 and February 15th, 2020.
 - a. Payroll costs include: cash compensation, employer portion of retirement and health insurance benefits, and state unemployment taxes (do not include federal taxes, medicare, etc).
 - b. Remember each employee wages is capped at \$100,000 for the year – any amount over \$100,000 must be backed out of your calculation.
2. Divide the total payroll costs by 3. This is your average monthly payroll amount.
3. Multiply by 2.5 (for most businesses).
 - a. Multiply step 2 by 3.5 if you are in the Food Services or Accommodations Sector (NAICS code beginning with 72)

To calculate Loan Amount (Farmers or Ranchers – no employees):

1. Take Gross Income from 2019 or 2020 Schedule F (IRS Form 1040, Sch F – Line 9)
 - a. The maximum is \$100,000.
2. Divide Gross Income in Step 1 by 12. This is your average monthly payroll amount.
3. Multiply by 2.5 (for most businesses).
 - a. The max is \$20,833.

To calculate Loan Amount (Farmers or Ranchers – With Employees):

1. Take Gross Income (IRS Form 1040, Sch F – Line 9) **minus** Employee Payroll Costs (IRS Form 1040, Sch F – Line 22).
 - a. The maximum is \$100,000.
2. Add the average total monthly payment for employee payroll costs incurred or paid by the borrower during the same year elected by the borrower to Step 1.
3. Multiply by 2.5
 - a. The max is \$2,000,000.

To calculate Loan Amount (Schedule C – Sole Proprietor – No Employees):

1. Find the Net Profit from 2019 or 2020 Schedule C (IRS Form 1040, Sch C – Line 31)
 - a. The maximum is \$100,000
2. Divide the Net Profit by 12. This is your average monthly payroll amount.
3. Multiply Step 2 by 2.5 (for most businesses).
 - a. Multiply step 2 by 3.5 if you are in the Food Services or Accommodations Sector (NAICS code beginning with 72).

To calculate Loan Amount (Schedule C – Sole Proprietor – With Employees):

1. Find the Net Profit from 2019 or 2020 Schedule C (IRS Form 1040, Sch C – Line 31)
 - a. The maximum is \$100,000
2. Add step 1 to the average total monthly payment for employee payroll costs incurred or paid by the borrower during the same year.
3. Divide Step 2 by 12. This is your average monthly payroll amount.
4. Multiply step 3 by 2.5 (for most businesses).
 - a. Multiply step 2 by 3.5 if you are in the Food Services or Accommodations Sector (NAICS code beginning with 72).

To calculate Loan Amount (New Business – MUST have been in operation on 2/15/20):

1. Add up total payroll costs since opening business until today.
 - a. Payroll costs include: cash compensation, employer portion of retirement and health insurance benefits, and state unemployment taxes (do not include federal taxes, medicare, etc).
 - b. Remember each employee wages is capped at \$100,000 for the year – any amount over \$100,000 must be backed out of your calculation.
2. Divide the total payroll costs by the number of months in which those payroll costs were paid or incurred. This is your average monthly payroll amount.
3. Multiply by 2.5 (for most businesses).
 - a. Multiply step 2 by 3.5 if you are in the Food Services or Accommodations Sector (NAICS code beginning with 72).