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Audit

Accounting

CARES Act

Creditor accounting for Paycheck Protection Program loans

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The Coronavirus Aid, Relief, and Economic Security (CARES) Act created the Paycheck Protection Program, which is administered by the Small Business Administration, to provide potentially forgivable loans to support eligible small businesses impacted by COVID-19.

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The Paycheck Protection Program (hereon "PPP") loans, which have a two – or - five-year term and bear interest at 1 %, are provided through Small Business Administration (SBA)-approved creditors to whom the SBA pays a fee for processing the loans. As described in the SBA's Procedural Note, creditors are not entitled to a processing fee under certain circumstances, most notably if the SBA determines that the borrower was ineligible for a PPP loan.

A portion of the borrower's PPP loan will be forgiven, equal to eligible costs incurred during a specified period, provided that both:

1. the borrower maintains specified employee and payroll levels during that period;
2. at least 75 percent of the eligible expenditures are used for payroll.

All amounts advanced by creditors under the PPP are guaranteed by the SBA, including amounts forgiven.

On June 30, 2020, the AICPA issued Technical Questions and Answers (TQAs) 2130.42 through 2130.44 addressing creditor accounting for PPP loans.

Classification of loans

The AICPA's TQAs conclude that creditors should account for advances made under the PPP as loans receivable, and not as facilitated government grants. Advances made under the PPP are loans in legal form, with a stated amount of principal, an interest rate, and a maturity date, and the creditor expects to collect amounts due under the loan either from the borrower or from the SBA as guarantor.

Consideration of SBA guarantee

Under the guidance in ASC 326, Financial Instruments – Credit Losses, a creditor should include credit enhancements, such as guarantees, when estimating credit losses on a loan if the enhancement is “embedded” in the loan as opposed to being a “freestanding contract” that is distinct from the loan.

The SBA guarantee of a PPP loan is embedded in the loan and should be considered when estimating credit losses under ASC 326. The SBA guarantee of a PPP loan is considered embedded in the loan because it exists at the inception of the loan and throughout its life, is not entered into separately and apart from the loan, is not legally detachable, ceases to exist only if the creditor violates an obligation under the PPP guidelines, and, if the loan is transferred, the purchaser would benefit from the SBA guarantee as well.

For creditors that have not yet adopted the new credit losses guidance in ASC 326, SBA guarantees would also be considered embedded in the loan for purposes of determining the allowance for credit losses under ASC 450, Contingencies, or ASC 310, Receivables, as applicable.

Accounting for PPP fees

Creditors who process PPP loans earn a fee from the SBA upon funding the loan. The SBA pays the fee to the creditor on behalf of the borrower, and upon funding the loan, the creditor should account for the fee as a nonrefundable loan origination fee in accordance with ASC 310-20, Nonrefundable Fees and Other Costs. Accordingly, the fee should be offset against any deferred loan origination costs and recognized as an adjustment to yield over the life of the PPP loan.

The processing fee paid to the creditor may be subject to clawback by the SBA if any one of the following criteria applies:

The PPP loan is cancelled or voluntarily terminated and repaid after disbursement but before the borrower-certification safe harbor date.

- the PPP loan is cancelled, terminated, or repaid after disbursement (and after the borrower-certification safe harbor date) because the SBA reviewed the loan and determined that the borrower was ineligible for the PPP loan.
- the creditor has not fulfilled its obligations under the PPP regulations.

The clawback provisions do not make the fee refundable because they are designed to operate similarly to cancellation or penalty provisions in the event of violations of representations or warranties (or an obligation of the creditor). However, creditors should establish a loss contingency in accordance with the guidance in ASC 450 when it is probable that a loss has occurred, and the amount of loss is estimable.

Source:
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