

Snapshot

UPDATED SEPTEMBER 1, 2020
SNAPSHOT 2020-18

Creditor accounting for PPP loans

The [Coronavirus Aid, Relief, and Economic Security \(CARES\) Act](#) created the Paycheck Protection Program (PPP), which is administered by the Small Business Administration (SBA), to provide potentially forgivable loans to support eligible small businesses impacted by COVID-19. The PPP loans, which have a two- or five-year term and bear interest at 1 percent, are provided through 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.

The AICPA has issued [Technical Questions and Answers](#) (TQAs) 2130.42 through 2130.45 addressing creditor accounting for PPP loans. This Snapshot summarizes the TQAs.

Classification of loans

According to TQA 2130.42, 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

TQA 2130.43 addresses the impact of the SBA guarantee on a creditor's assessment of credit losses on PPP loans. 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, it is not entered into separately and apart from the loan, it is not legally detachable, it 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 under ASC 310, *Receivables*, as applicable.

Accounting for PPP fees

TQA 2130.44 addresses the accounting for loan origination fees received by the creditor from the SBA. 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 accounts 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 due to 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 that loss is estimable.

Loan repayment or forgiveness

TQA 2130.45 addresses the lender's accounting for loan repayment or forgiveness of PPP loans by the SBA. A borrower, in order to receive forgiveness on a PPP loan, must submit an application for forgiveness to the creditor. The creditor, in turn, issues a recommendation to the SBA within 60 days on whether the borrower is entitled to full, partial, or no forgiveness of the PPP loan, and requests payment from the SBA equivalent to the amount for which it recommends

forgiveness (including accrued interest). The SBA then has 90 days to review the request for payment from the creditor. If the SBA concurs with the creditor's recommendation, the SBA pays the creditor for the amount forgiven, plus any interest that accrues through the date of payment. The borrower must then remit any amount not forgiven by the SBA to the creditor in accordance with the terms of the PPP loan. If the SBA determines that the borrower was ineligible for the PPP loan, the borrower must immediately repay the loan to the creditor.

If the borrower does not submit a loan forgiveness application for all or a portion of the loan, the borrower must repay the principal and interest according to the contractual terms of the loan.

Prior to payment by the SBA or the borrower, the creditor should account for a PPP loan as an interest-bearing loan or as a finance receivable in accordance with ASC 310, as well as analyze the loan or receivable for impairment in accordance with ASC 326 (or ASC 310 if the creditor has not yet adopted ASC 326). Payments received by the creditor from either the SBA or the borrower before the PPP loan reaches contractual maturity are considered prepayments of the PPP loan.

Since the SBA is considered one of the counterparties to the PPP loan, payments received from the SBA should be treated in a manner similar to payments received from the borrower. Accordingly, unamortized loan origination fees should be recognized into income when prepayments are received from either the borrower or the SBA in accordance with ASC 310-20.

Grant Thornton resources

For more information on borrower accounting for PPP loans as well as the overall impact of COVID-19 on estimates of credit losses, see [NDS 2020-04](#), "COVID-19: Accounting and financial reporting considerations."

For more information on accounting for freestanding credit enhancements, please see [Snapshot 2020-08](#), "Accounting for freestanding credit enhancements."

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