
Q&A Section 2130

Paycheck Protection Program (PPP)

The CARES Act, as amended, established the Paycheck Protection Program (PPP). The PPP involves a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The following questions and answers address certain accounting matters for that program for lenders. Please refer to the [SBA website](#) for detailed information regarding the PPP.

.42 Classification of Advances Under the Paycheck Protection Program

Inquiry—Should the lending institution account for an advance under this program as a loan or as a facilitation of a government grant?

Reply—The instrument is legally a loan with a stated principal, interest, and maturity date. The institution is expected to collect amounts due from either the borrower or the Small Business Administration (SBA) as guarantor. The institution should account for this instrument as a loan.

.43 Consideration of the SBA Guarantee Under the Paycheck Protection Program

Inquiry—Is the guarantee from the SBA considered “embedded” as opposed to a “freestanding contract” and, thus, can it be considered in estimating credit losses on the loan?

Reply—The SBA guarantee exists at the inception of the loan and throughout its life and was not entered into separately and apart from the loan. If the loan is transferred, the guarantee transfers with it. The arrangement does not contemplate the loan existing without the guarantee unless it is ultimately determined the lender violated an obligation under the agreement. The guarantee was not entered into in conjunction with some other transaction and is not legally detachable. As a result, for institutions that have adopted FASB Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the guarantee would not meet the definition of a *freestanding contract* as defined by FASB Accounting Standards Codification (ASC) 326-20-20.

FASB ASC 326-20-30-12 requires credit enhancements that mitigate credit losses (other than those that are considered freestanding contracts) to be considered in estimating credit losses. The guarantee is considered “embedded” and would, therefore, be considered when estimating credit losses on the loan.



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For institutions that have not yet adopted ASU No. 2016-13, SBA guarantees would similarly be considered embedded guarantees (contracts that are not freestanding financial instruments) in determining the allowance for credit losses under FASB ASC 450, *Contingencies*, or FASB ASC 310, *Receivables*.

.44 Accounting for the Loan Origination Fee Received From the SBA

Inquiry— What is the accounting for the fee received or receivable from the SBA for originating the loan and the potential clawback of the fee?

Reply— Upon funding of the loan, the fee should be accounted for as a nonrefundable loan origination fee under FASB ASC 310-20, *Receivables—Nonrefundable Fees and Other Costs*. As a result, it should be offset against loan origination costs and deferred in accordance with FASB ASC 310-20-25-2 and amortized over the life of the loan (or estimated life if prepayments are probable and the timing and amount of prepayments can be reasonably estimated and the entity qualifies and elects to apply the guidance in paragraphs 26–32 of FASB ASC 310-20-35) as an adjustment to yield in accordance with FASB ASC 310-20-35-2.

As noted in question .43, the loan guarantee is embedded in the loan and is part of the same “unit of account.” As a single unit of account, the arrangement involves multiple counterparties, which are (1) the lending institution, (2) the borrower, and (3) the SBA as guarantor, which through that role could be looked to for payment if the borrower either (a) provides the institution/SBA with documentation it has met the conditions to have the loan forgiven or (b) defaults on its obligation. The loan origination fee is paid to the institution by one of the counterparties, the SBA. In effect, the SBA is paying a loan origination fee that would have ordinarily been paid by the borrower. In certain program documents, the fee may be referred to as a *processing fee*, but the labelling of the fee is not determinative.

The fee received from the SBA for originating the loan may be subject to clawback (or if the SBA has not yet paid the fee, the fee may not be paid), after full disbursement of the PPP loan if

- 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 SBA conducted a loan review and determined that the borrower was ineligible for a PPP loan, or
- the lender has not fulfilled its obligations under the PPP regulations.

AICPA staff believes that these clawback provisions are distinguished from refund provisions because they are designed to operate similar to cancellation or penalty provisions in the event it is ultimately determined that one of the counterparties to the arrangement violated a representation, warranty, or in the case of the lender, an obligation under the agreement. This would include repayments that occur before the borrower certification safe harbor date as that provision was designed to allow borrowers to repay their loans to avoid the potential of being deemed ineligible. As a result, AICPA staff believes that these clawback provisions would not cause the fee to be considered refundable and, as a result, would be subject to FASB ASC 310-20.

AICPA staff also believes that lenders should consider the guidance in FASB ASC 450, *Contingencies*, related to fees that may be subject to clawback or not received. A lender should establish a loss contingency when it is probable that events or conditions precedent to a loss have occurred, and the resulting amount of the loss is estimable.