Banking and Finance Law Daily Wrap Up, LOANS—ICBA seeks accounting exception for up-front PPP loan fees, (Sept. 21, 2020)

Banking and Finance Law Daily Wrap Up

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Noting the "unique characteristics" of PPP loans, the ICBA urges federal financial regulators to permit special treatment of up-front fees for accounting purposes.

In a letter to leaders of the Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Federal Reserve Board, the Independent Community Bankers of America expresses its concern about "the treatment of upfront loan fees" that are collected by community banks "from the Small Business Administration upon origination of a PPP [Paycheck Protection Program] loan." Given the "unique characteristics" of these PPP loans, the ICBA believes that the "treatment of the upfront deferred loan fees" deserve a special exception for regulatory accounting treatment. Along these lines, the ICBA requests that the federal agencies "permit community banks to recognize the upfront PPP loan fees in income upon origination of the PPP loan" and apply this accounting exception "in a retrospective manner."

The ICBA's Sept. 18, 2020, letter, authored by ICBA President and CEO Rebeca Romero, commends the FDIC, OCC, and Fed for: making the PPP program "an overwhelming success for the thousands of small businesses that otherwise would have limited ability to continue to operate under the economic upheaval caused by the COVID-19 pandemic"; for the regulators' "sensitivity to community bank concerns about how to navigate the CARES Act"; and for their guidance in helping community banks "implement the PPP as efficiently as possible considering the difficulties faced by their communities."

In support of its request for the regulators to recognize a special accounting exception for PPP loans, the ICBA letter points out that the PPP is "so different from the traditional lending activities that community banks engage in and the customary loan types that normally appear on community bank balance sheets." For instance, the unique characteristics of PPP loans include: "the very low interest rate, the relative short maturity of the loans, the guarantee of the SBA, the large amount of PPP loans funded by community banks, and the tremendous amount of upfront work that community banks must engage in to assist the borrower with the application process" and to otherwise comply with PPP requirements.

Companies: Independent Community Bankers of America

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