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Today's News

FASB News

Companies Might Get FASB Staff Clarification on Reporting Fees for Small Business Loans

Topic(s): FASB, Regulated Industries, Disclosure, Risk, GAAP, Financial Reporting, Financial Management

Summary: Financial institutions have asked FASB staff accountants to clarify the reporting of fees for originating Small Business Administration (SBA) loans, an issue sparked by the coronavirus stimulus package that was recently signed into law. Staff will address whether fees for originating SBA loans should be accounted for as a yield adjustment over the life of the loan or upfront when received, FASB's Acting Technical Director Shayne Kuhaneck said on April 8, 2020.

By Denise Lugo

Financial institutions have asked FASB staff accountants to clarify the reporting of fees for originating Small Business Administration (SBA) loans, an issue sparked by the coronavirus stimulus package that was recently signed into law.

At issue is whether fees for originating SBA loans should be accounted for as a yield adjustment over the life of the loan or upfront when received, FASB's Acting Technical Director Shayne Kuhaneck said on April 8, 2020. Staff members are reviewing the issue and will determine the most appropriate way to inform companies with an answer in the near term, he said.

The Coronavirus Aid, Relief and Economic Security (CARES) Act, signed into law on March 27, 2020, provides for SBA loans that would be 100 percent guaranteed and forgivable by the SBA if the small business uses the loan proceeds for certain costs.

Under the CARES act, \$349 billion in federally guaranteed loans are available to small businesses under the Paycheck Protection Program so that workers will not lose their jobs over the economic impact of the novel virus.

Under normal circumstances when a bank originates a loan the related fees associated with the loan would fall under loan origination fees, accounting practitioners said on April 15. Current GAAP would require companies to defer those fees net of any origination cost and amortize that over the life of the loan as a yield adjustment.

Given that the fees the banks will receive are coming from the SBA, the general thought is that most of these loans under the CARES Act's Paycheck Protection Program will be forgiven after an eight-week period by the SBA and then the bank will be paid off, practitioners said.

"The question has arisen should the bank just recognize that fee that they receive upfront on day one once they originate that loan or would it be appropriate – do they need to follow GAAP that's currently in place and defer those over the life of the loan and if that makes sense," Jeff Skaggs, principal of Baker Newman Noyes, a tax and accounting CPA firm, said. "The current thinking is these are probably two-month life type of loans and do we need to even bother to do that."

Skaggs said a good approach would be for companies to follow the accounting provisions that require them to defer the fees and recognize them over the life of the loan net of the cost.

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