SBA PPP Update: Senate Passes House Bill on PPP Reforms, Likely Pushing Out PPP Fee Recognition for the Banks

Summary

Last night, the Senate passed changes to the SBA's Paycheck Protection Program (PPP) giving small businesses more flexibility on use of proceeds and extending the forgiveness period by unanimous consent. The changes to PPP are a positive for small businesses, although it likely pushes out the timing of forgiveness on existing loans and thus the accounting recognition of these fees for banks from what the KBW bank team is currently modeling (2020E, mostly Q2/Q3). The House passed the same bill last week in a 471-1 vote, and after being approved in the Senate last night the bill is now headed to President Trump to sign. About $130B of PPP remains available for small businesses.

- Congress Passes Changes to PPP — Most notably, the bill extends the period where loan proceeds must be spent to 24 weeks (from 8 weeks), pushes out the deadline by which workers must be rehired to qualify for forgiveness to December 31 (from June 30), and lowers the amount of the loan that must be spent on payroll to 60% (from 75%). Unlike before, the 60% payroll threshold must be met in order to receive any forgiveness of the loan. New loans will also have a 5-year maturity for portions that aren't forgiven (instead of 2 years), and lenders will have the ability to extend existing PPP loan maturities for existing loans if mutually agreed upon with the borrowers.

- Our Thoughts and Implications for Lenders — When the KBW bank team began incorporating PPP into our estimates during 1Q20 earnings season, we had broadly assumed that most of these loans would be forgiven after emerging from the 8-week measurement period and largely off the balance sheet by early 2021. Most banks we've heard from expect PPP fees will be recognized over the life of these loans through interest income for accounting purposes, and so our forgiveness assumptions accelerated the recognition of these fees into 2020 (mostly next 2 quarters) in our models, with these fees accounting for about 12% of the cumulative provision over 2020E and 2021E on a median basis in our estimates. As reopening for many parts of the country are extending well beyond what was initially thought when the program was written, the 8-week measurement period for forgiveness as well as the stipulation that at least 75% of the forgiveness amount must be spent on payroll were impractical for small businesses in the current economic landscape. The changes for Congress address these issues, making the program more helpful for small businesses to stay afloat, although they push out the timing of forgiveness from what we had initially expected (and thus the recognition of these fees). In late May, Treasury/SBA also clarified that banks will have up to 60 days to approve a forgiveness application and then the SBA will have up to 90 days to review a loan forgiveness application (versus 15 days specified in interim final rule). Based on these changes, we believe that a greater portion of forgiveness could be pushed into 4Q20 and early 2021.

For more on PPP at a company level, please see our last PPP tracker from May 25, SBA PPP Tracker: Changes Potentially Coming to the Program (v4).
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