



What To Do With Your PPP Loans

👉 [lending](#) [business customers](#) [pandemic](#)

Summary: With PPP loans on your books, is it best to keep them, sell them, or hire a vendor to help? We run through these options.

In a study by the Fetzer Institute, 62% of Americans reported that they needed more forgiveness in their personal lives. Small business customers also want forgiveness -- of their PPP loans.

Recent changes to the Small Business Administration's Paycheck Protection Program (PPP) will help more small businesses get their loans forgiven -- but it also leaves community financial institutions (CFIs) on the hook for longer, meaning extra costs and a growing administrative burden. Are CFIs better off keeping the loans and associated work in-house, selling the loans now and letting someone else deal with the hassles, or hiring a vendor to help? There are pros and cons to each choice.

Keeping the loans. Institutions can keep PPP loans, which support the credit quality of loan portfolios and strengthen relationships between them and small businesses.

PPP loans are guaranteed by the Small Business Administration (SBA) and more importantly, most of these loans will be forgiven. Third, the loans carry a capital risk weighting of 0%. Also, remember that while the interest rate on these loans is low, adding in the processing fee increases the loan's yield through maturity. CFIs may opt to keep these loans; however, they should consider both funding sources and duration risk.

Selling the loans. CFIs can sell loans made under the SBA 7(a) program into the secondary market, though the viability for this is not yet clear. Specifically, while the SBA guarantee strengthens the credit quality, the low interest rate may cause the loans to sell at a discount to par.

If investors expect loan duration to be around six months, they might accept a small discount to par, especially in an environment of historically low interest rates. But, if the market prices the PPP loans at two to five years -- the contractual maturity -- it may require a larger discount.

If CFIs decide to sell, they can choose to elect the fair value option, which lets you recognize the processing fee into income sooner. But, you would also need to recognize PPP-related unrealized losses and gains in current earnings.

Hiring a vendor. CFIs may wish to keep the loans and hire outside help with loan forgiveness applications. That may take the form of a software platform that automatically generates loan forgiveness applications, prefills some information, and calculates the forgiveness amount. Or CFIs can hire a third-party consultant to handle every aspect of forgiveness applications. That would alleviate the pain point of having the CFI's own employees put in long hours to manage vast numbers of applications (which we saw in the initial PPP application phase).

Whichever option you choose, there are pros and cons. Simply be aware of both as you make your decision and continue to assist your customers.

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