Supplement to the FCA Informational Memorandum Providing Guidance for System Institutions Affected by the COVID-19 Pandemic

Regulatory capital requirements for PPP loans

The Farm Credit Administration issued an informational memorandum on January 5 (PDF) to provide updated guidance to Farm Credit System (System) institutions on issues related to the COVID-19 pandemic. The memorandum includes general guidance for capital requirements. It also states that we will provide additional guidance in the form of supplements to the informational memorandum.

This is the fifth supplement to the January 5 informational memorandum. It discusses the regulatory capital treatment for Paycheck Protection Program (PPP) loans. The Consolidated Appropriations Act of 2021 (2021 Omnibus) was signed into law on December 27, 2020.[1] This legislation directed specific treatment of PPP loans under our regulatory capital rules,[2] which is communicated through this supplement.

This supplement supersedes and replaces a supplement on the same subject, which is attached to the May 4, 2020, informational memorandum (PDF). This updated supplement is in effect for as long as any System PPP loan remains outstanding.

1. What is the PPP?

Congress created the PPP in section 1102 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).[3] PPP loans are fully guaranteed as to principal and accrued interest by the U.S. Small Business Administration (SBA). PPP loans also afford borrowers forgiveness up to the principal and interest amount of the PPP loan, provided the proceeds are used for certain expenses. The SBA reimburses PPP lenders, which include System institutions,[4] for any amount of a PPP loan that is forgiven.

2. What is the PPP Liquidity Facility (PPPL Facility)?

To provide liquidity to small business lenders and the broader credit markets and to help stabilize the financial system, the Federal Reserve Board established the PPPL Facility on April 9, 2020. Under this lending facility the Federal Reserve Banks will extend nonrecourse loans to institutions, including System institutions, that are eligible to make PPP loans. Only PPP loans that are guaranteed by the SBA under the PPP with respect to both principal and interest and that are originated by an eligible institution may be pledged as collateral to the Federal Reserve Banks (eligible collateral).[5]

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[1] Public Law Number 116-260 (December 27, 2020).
[2] See Division N, title III, section 314(b)(3), of PL 116-260.
[3] Terms, conditions, and program availability have been revised through subsequent legislation, including the 2021 Omnibus.
[4] Except for the Federal Agricultural Mortgage Corporation, which is not an eligible PPP lender.
[5] Any such loans pledged to the PPPL Facility cannot be included in a System bank's collateral that is required by section 4.3(c) of the Farm Credit Act.

On April 30, 2020, the Federal Reserve Board expanded access to the PPPL Facility to all SBA-qualified lenders, including System institutions (see Paycheck Protection Program Liquidity Facility Term Sheet (PDF)). System institutions that participate in the PPPL Facility should ensure they fully understand the requirements, terms, and conditions of the facility.

The PPPL Facility is currently available to eligible lenders until March 31, 2021.[6] For more information about the PPPL Facility, see the Frequently Asked Questions on the Federal Reserve's website.

3. How should a PPP loan be treated for regulatory capital purposes?

As mandated by the 2021 Omnibus, PPP loans at System institutions are not to be included in any applicable capital ratio or calculation.[7]

Risk weight: All System PPP loans are to be risk-weighted at 0% in our risk-based capital calculations. This includes the following:

- PPP loans to borrowers originated by a System bank or System association
- The portion of a loan from a System bank to an affiliated association that funds System PPP loans[8]

This capital treatment represents a change from that described in our previous guidance. Under the earlier guidance, the risk weight for the portion of a loan from a System bank to an affiliated association funding the origination of PPP loans was 20%, in accordance with § 628.32(c).

Tier 1 leverage ratio: All System PPP loans are to be excluded from total average assets for purposes of the tier 1 leverage ratio calculation (including the unallocated retained earnings (URE) and URE equivalents measure) whether pledged to the PPPL Facility or not. This includes the following:

- PPP loans to borrowers originated by a System bank or System association
- The portion of a loan from a System bank to an affiliated association that funds System PPP loans

This capital treatment represents a change from that described in our previous guidance. Under the earlier guidance, a PPP loan that was not pledged to the PPPL Facility was to be included in total average assets for purposes of the tier 1 leverage ratio calculation.

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[6] See November 30, 2020, Federal Reserve press release.

[7] *See* Division N, title III, section 314(b)(3) of PL 116-260.

[8] An affiliated association is a System association having a wholesale lending relationship with a System bank.

4. How are PPP loans to be reported in FCA Uniform Call Reports?

When preparing call reports, System institutions are to include PPP loan amounts on schedule RC-R.7 (average balances) on one of the following lines, as applicable:

- Line 5.a (retail exposures), column D (0%)
- Line 5.b (wholesale exposures), column D (0%)

Volume excluded from leverage measures because of this guidance is to be reflected on schedule RC-R.5 (miscellaneous tier 1/tier 2 calculations), line 1.c (less: other adjustments required by FCA). Including these amounts here removes their impacts on total average assets for the tier 1 leverage ratio.

The regulatory capital treatment described above is to be applied retroactively to all PPP loans extended under the CARES Act. As a result, System institutions, at their discretion, may amend prior Call Report Submissions[9] or Shareholder reports to reflect the above capital treatment on all of their PPP loans.

5. Whom do I contact for more information?

If you have any questions regarding this supplement, please email them to ORPMailbox@fca.gov, or contact Jeremy R. Edelstein, Associate Director, Office of Regulatory Policy (ORP), at 703-883-4497; Ryan Leist, Senior Accountant, ORP, at 703-883-4223; or Clayton Milburn, Senior Financial Analyst, ORP, at 916-604-3142.

[9] As described on page 10 of FCA's Instructions for Preparing The Report of Financial Condition and Performance, System institutions may submit electronically a new certification using Appendix D (Notice of Correction to Call Report).