

McNair
McLemore
Middlebrooks & Co., LLC
CERTIFIED PUBLIC ACCOUNTANTS



ACCOUNTING ALERT!

MCNAIR, MCLEMORE, MIDDLEBROOKS & CO., LLC

389 Mulberry Street • Post Office Box One • Macon, GA 31202

Telephone (478) 746-6277 • Facsimile (478) 743-6858

www.mmmcpa.com

Timing of Gain Recognition on Sale of SBA Loans

Overview: Small Business Administration Form 1086 is used in the 7(a) loan program to document sales of guaranteed SBA loans in the secondary market. Form 1086 (prior to recent revisions) contained 90-day warranty provisions which, under current accounting rules, require the gain recognized on the sale to be deferred until expiration of the 90-day provision.

Old Accounting: Until expiration of the 90-day period, total loan sales proceeds are recorded as liabilities characterized as secured borrowings.

New Accounting: The revised Form 1086 removes the warranty provision and, accordingly, allows gains from premiums earned on secondary market sales to be recorded at the date of sale without deferral.

New accounting will result in immediate recognition of sales proceeds as a reduction of the loan sold and gain on the sale.

Effective Date: The revised Form 1086 (resulting in immediate gain recognition) should be used for all loans submitted for secondary market sales settlement on or after February 15, 2011.

If you need further clarification, please contact any of the following members of the financial institutions group.

McNAIR, McLEMORE, MIDDLEBROOKS & CO., LLC

Financial Institutions Group

(478) 746-6277

Ray C. Pearson Marjorie Huckabee Carter Pat Muse

Teresa Behrman John McLeod

March 22, 2011