INSPECTION OF SBA'S IMPLEMENTATION OF THE PAYCHECK PROTECTION PROGRAM

REPORT NUMBER 21-07 | January 14, 2021

EXECUTIVE SUMMARY

INSPECTION OF SBA'S IMPLEMENTATION OF THE PAYCHECK PROTECTION PROGRAM

Report 21-07

January 14, 2021

What OIG Reviewed

The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020. Section 1102 of the Act provided $349 billion for the creation the Paycheck Protection Program (PPP) under Section 7(a) of the Small Business Act.

This program provides fully guaranteed SBA loans for certain eligible small businesses, individuals and nonprofit organizations that can be forgiven if loan proceeds were used as required by the law. Eligible expenses include payroll, rent, utility payments, and other limited uses.

Our objective for this inspection was to assess SBA's implementation of the PPP, including the timing of implementation, lender participation, guidance provided to lenders and staff, timeliness of loan approval and disbursement, and systems used to process lender loan approvals.

What OIG Found

SBA's initial response to implement the PPP quickly made billions of dollars of capital available to millions of borrowers affected by the COVID-19 pandemic. SBA quickly released loan origination program guidance for the majority of the program's aspects and approved approximately 3,800 financial institutions for participation in the program. However, SBA's efforts to hurry capital to businesses were at the expense of controls that could have reduced the likelihood of ineligible or fraudulent business obtaining a PPP loan. As a result, there is limited assurance that loans went to only eligible recipients.

Additionally, we found aspects of SBA's implementation of the PPP could prevent Congress and SBA management from having the information needed to determine if program objectives were fully met. We found SBA's PPP publicly reported and loan-level data was inaccurate and incomplete, and SBA guidance was not sufficient to ensure PPP lenders prioritized underserved markets during the initial round of funding.

Finally, while we determined some aspects of SBA's initial implementation of the PPP were not executed efficiently, SBA later made several corrections so the program would operate more effectively.

OIG Recommendations

We made six recommendations to improve SBA's program and reduce the risk of financial loss from PPP loans being made to ineligible or fraudulent borrowers and improve SBA's ability to obtain information necessary for critical program decisions.

Agency Response

SBA fully agreed with five of the six recommendations. Specifically, the agency agreed with recommendations 1, 2, 4, 5, and 6. Management disagreed with recommendation 3 but provided an alternative solution that satisfied the intent of the recommendation.

To address all recommendations, management plans to review the loans identified in the report as potentially ineligible and implement or strengthen internal controls to ensure loans were not made to ineligible or potentially fraudulent borrowers.

Additionally, management plans to update PPP program forms to

- reduce the risk of financial loss from potentially ineligible loans,
- ensure accurate and complete program reporting, and
- ensure sufficient information is gathered to assess program objectives.

Office of Inspector General

U. S. Small Business Administration

DATE: January 14, 2021

TO: Jovita Carranza, Administrator

FROM: Hannibal "Mike" Ware /S/
Inspector General

SUBJECT: Inspection of SBA's Implementation of the Paycheck Protection Program

This report presents the results of our inspection, *Inspection of SBA's Implementation of the Paycheck Protection Program*. We considered management's comments on the draft when preparing the final report. Management agreed with five of our six recommendations and disagreed with one.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Teresa Gray, Director of Credit Programs, or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: William Manger, Associate Administrator, Office of Capital Access and Chief of Staff
Christopher Gray, Deputy Chief of Staff
Stephen Kong, Acting Chief Operating Officer
Brittany Biles, General Counsel, OGC
John Miller, Deputy Associate Administrator, OCA
William Briggs, Deputy Associate Administrator, OCA
Michael Simmons, Attorney Advisor, OGC
Martin Conrey, Attorney Advisor, OGC
Tami Perriello, Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls
Rafaela Monchek, Director, Office of Continuous Operations and Risk Management

Table of Contents

Introduction

This report presents the results of our inspection of SBA's implementation of the Paycheck Protection Program (PPP). The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020, to provide economic relief from the impact of Coronavirus Disease 2019 (COVID-19).

One of the Act's most significant provisions, Section 1102, provided $349 billion for the PPP under section 7(a) of the Small Business Act. The PPP provides fully guaranteed SBA loans for certain eligible small businesses, individuals, and nonprofit organizations that can be forgiven if loan proceeds were used as required by the Act. Eligible expenses include payroll, rent, utility payments, and other limited uses.

On April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act to provide an additional $310 billion to the PPP. SBA initiated this round of additional funding on April 27. As of June 30, PPP lenders had approved a total of 4,885,388 loans totaling more than $521.4 billion. The deadline for PPP borrowers to apply for a loan was originally June 30, 2020. However, Congress passed legislation that extended the program until August 8, 2020.

Initial PPP Loan Approval Volume

SBA was tasked with expediting the implementation of this unprecedented program to mitigate the economic impact of social distancing and other negative effects of the COVID-19 outbreak. SBA launched the program on April 3, 2020, only 1 week after the Act was passed. Demand for the program was extraordinary. By April 16, just 14 days after SBA launched the program, PPP lenders approved more than 1,661,000 loans totaling nearly $342.3 billion (See Table 1).

Table 1: Summary of Paycheck Protection Program Loans, Round 1

Loan Count	Net Approved Dollars	Lender Count
1,661,367	$342,277,999,103	4,975

Source: SBA PPP website

Note: Data as of 12 p.m., Thursday, April 16, 2020

Program Roles and Responsibilities

Under the CARES Act, SBA administers the PPP with guidance from the Secretary of the Treasury.[1] The U.S. Department of the Treasury, in consultation with SBA, was required to establish participation criteria for insured depository institutions, insured credit unions, institutions of the Farm Credit System, and other lenders that were not already participating in other SBA lending programs.[2]

SBA's Office of Capital Access was the primary SBA program office tasked with the implementation of the program. Several other departments within that office played roles in the program's implementation, as follows:

[1] Division A Section 1109 (h) of CARES Act.
[2] Division A Section 1109 (b) of CARES Act.

- The Office of Financial Assistance developed policies for the program.
- The Office of Credit Risk Management, in consultation with Treasury, reviewed and made decisions on applications for additional financial institutions' participation in the PPP.
- The Office of Performance and Systems Management was responsible for the information systems and data for the PPP.
- The Office of Financial Program Operations was responsible for developing policies for center staff and reviewers of PPP loans for eligibility and forgiveness.

Statutory Authority

The PPP provides guaranteed loans to assist eligible businesses, individuals, and organizations to keep American workers paid and employed. On April 24, 2020, the Enhancement Act added funding to the PPP and required the SBA Administrator to set aside $30 billion for lending by insured depository institutions and credit unions with consolidated assets of $10 billion to $50 billion. The Enhancement Act also required the Administrator to set aside an additional $30 billion for lending by community financial institutions, insured depository institutions with consolidated assets of less than $10 billion, and credit unions with consolidated assets of less than $10 billion.

The PPP Flexibility Act enacted on June 5, 2020, amended the Small Business Act and the CARES Act to change provisions related to the forgiveness of loans under the PPP. The PPP Flexibility Act provided PPP borrowers with additional relief, including reducing the percentage of eligible expenses used for payroll costs, extending the covered period for PPP loans, and extending the maturity on PPP loans.

Formal Guidance

SBA complied with the statutory timeframe for the issuance of regulations for the PPP, issuing (in coordination with Treasury) an initial Interim Final Rule on April 2, 2020, only 6 days after the enactment of the CARES Act. SBA was required to issue regulations for the program not later than 15 days from the date of the enactment of the CARES Act.

The interim guidance allowed lenders to begin approving loans on April 3, 2020, 1 week after the enactment. The initial interim rule included primary guidance for originating loans under the program. Later versions of interim final rules included specific topics to clarify issues with the previously announced policies. As of June 30, 2020 SBA, had issued 22 interim final rules for the new program.

Other Guidance

SBA has also published additional guidance for the PPP in its Frequently Asked Questions (FAQs) document and specific loan program forms. As of June 30, 2020, SBA had published 49 FAQs and responses about aspects of the program, primarily eligibility, loan size calculations, and loan sales on the secondary market. SBA also released program forms such as lender participation applications, loan applications, and forgiveness applications, as well as informational notices to help lenders begin the PPP.

Approval of Financial Institutions for the PPP

SBA, in consultation with Treasury, approved financial institutions to participate in the program. Under the Act, 7(a) lenders were already allowed to participate in the program. Additional financial institutions to be approved included banking institutions such as commercial banks, credit unions, and savings and loan associations.

The CARES Act authorized the Secretary of the Treasury in consultation with the SBA Administrator to include additional financial institutions for participation. SBA approved nonbanking institutions such as SBA certified development companies, Community Development Financial Institutions, farm credit lenders, SBA microlenders, state-regulated Lenders, and business and industrial development corporations.

SBA's Office of Credit Risk Management, in coordination with Treasury, was responsible for approving the additional financial institutions. That office required potential lenders to complete the agency's application for lender participation to confirm eligibility.[3]

As of June 30, 2020, 5,466 lenders were participating in the PPP. Some 3,755, or 69 percent, of the participating PPP lenders, were new to SBA lending or had not made 7(a) or 504 loans since October 1, 2017. The remaining 1,711 participating PPP lenders made 7(a) loans in Fiscal Year (FY) 2019. These active SBA 7(a) lenders were also allowed to make loans under the PPP.

Borrower Eligibility

Participating lenders provide loans to borrowers suffering from the financial impact of the pandemic. The CARES Act defines eligible borrowers as small business concerns, nonprofit organizations, veterans organizations, or tribal business concerns that employ not more than the greater of 500 employees or, if applicable, the size standard in number of employees established by SBA for the industry in which the business concern operates.

The CARES Act also provided that any business concern that employs not more than 500 employees per physical location of the business concern and which is assigned a North American Industry Classification System code beginning with 72 at the time of disbursement would be eligible to receive a covered loan. Additionally, individuals who operated as a sole proprietorship or as an independent contractor and eligible self-employed individuals could receive PPP loans.

PPP Loan Requirements and Terms

The CARES Act and subsequent Interim Final Rules defined PPP requirements. Borrowers were allowed to use PPP loans for the following:

- Payroll costs
- Costs related to the continuation of group healthcare benefits during periods of paid sick, medical, or family leave, and insurance premiums
- Employee salaries, commissions, or similar compensations
- Payments of interest on any mortgage obligation (not to include prepayments or principal)
- Rent and utilities
- Interest on any other debt obligations incurred before the covered period[4]

Borrowers were also required to make multiple certifications, which included certifying in good faith that the loan was necessary to support the ongoing operations of the eligible recipient because of the uncertainty of current economic conditions.

[3] SBA Form 3506 for Banking Institutions and SBA Form 3507 for Nonbanking Institutions.
[4] The CARES Act defined the covered period as beginning on February 15, 2020, and ending on June 30, 2020.

PPP loan term maximums included in the CARES Act provided for the calculation of the loan amount, loan interest rate, and maturity. The CARES Act stated the maximum loan amount would be the lesser of a calculation involving average monthly payroll costs (annualized based on when business was in operation) times 2.5, plus any outstanding amounts of Economic Injury Disaster Loans made beginning January 31, 2020, or $10 million.[5]

In consultation with Treasury, SBA set a 1 percent fixed interest rate for all PPP loans. Additionally, SBA set the maturity for PPP loans at 2 years. However, Congress enacted the PPP Flexibility Act of 2020 which extended the maximum maturity for PPP loans to be 5 years for loans approved after June 5, 2020. The CARES Act also granted a minimum of 6-month payment deferments for affected borrowers that were in operation on February 15, 2020, and which had an approved or pending PPP application.[6]

Previous Work

***Small Business Administration's Implementation of the Paycheck Protection Program Requirement* (Report 20-14, May 8, 2020).** As part of our ongoing work for this inspection, we issued a Flash Report to respond to queries by Sen. Charles E. Schumer of New York, Sen. Ben Cardin of Maryland, and Sen. Sherrod Brown of Ohio. We analyzed key provisions of Section 1102 of the CARES Act, and SBA's Interim Final Rules and public guidance on the PPP.

We found that SBA's Interim Final Rules for implementing the PPP and SBA's FAQs mostly aligned with the CARES Act. We identified four areas that did not fully align with the CARES Act's provisions: 1) prioritizing underserved and rural markets, 2) loan proceeds eligible for forgiveness, 3) guidance on loan deferments, and 4) registration of loans.

To better align PPP requirements with the provisions of the CARES Act, we suggested that SBA:

1. Issue guidance to lenders requiring the lenders to prioritize borrowers in underserved markets and revise the borrower application to include collection of optional demographic information for the principals for the remaining available lending authority and any future lending under the program.
2. Include optional demographic information on forms used to request loan forgiveness for loans that are already disbursed. Evaluate the potential negative impact to borrowers regarding the specified percentage of loan proceeds eligible for forgiveness and update the requirements, as deemed necessary.
3. Issue guidance to lenders on the deferment process for PPP loans.
4. Register PPP loans by Taxpayer Identification Number.

On May 15, 2020, SBA issued the first version of the PPP loan forgiveness application, which included an optional page for borrower demographic information. The PPP Flexibility Act of 2020 changed the minimum allowable use of proceeds for payroll costs from 75 percent to 60 percent.

In response to our May 8 Flash Report, SBA officials said they register the identification number when the SBA loan number is issued by the electronic loan processing platform.

[5] 15 USC 636(a)(36)(E) titled "Maximum Loan Amount"
[6] 15 USC 636(a)(36)(M)(ii)(II)

Objective

Our objective was to assess SBA's implementation of the Paycheck Protection Program, including the timing of implementation, lender participation, guidance provided to lenders and staff, timeliness of loan approval and disbursement, and systems used to process lender loan approvals.

Results

SBA quickly made billions of dollars of capital available to millions of businesses affected by the COVID-19 pandemic. SBA quickly released loan origination program guidance for most aspects of the program and approved approximately 3,800 financial institutions for participation in the program.

However, although SBA made efforts to expedite capital to businesses as intended by the Act, SBA lacks assurance that loans went to only eligible recipients. Loans given to ineligible borrowers placed taxpayer funds at risk of financial loss and delayed the amount of available critical capital needed for eligible businesses to withstand the effects of the pandemic during the first round of PPP funding.

We also found aspects of SBA's implementation of the PPP will result in Congress and SBA management not having the information needed to determine if program objectives were fully met.

Specifically, we found:

- SBA's publicly reported and loan-level PPP data was inaccurate and incomplete.
- Guidance was not sufficient to ensure PPP lenders prioritized underserved markets during the initial round of funding.

Finally, we determined that aspects of SBA's initial implementation of the PPP were not executed efficiently. However, SBA later made corrections to clarify program guidance and improved the electronic loan processing platform to allow the program to operate more effectively.

Finding 1: Ineligible Businesses Received Paycheck Protection Program Loans

We analyzed PPP loan data and identified three unique scenarios that indicate PPP loans were approved for potentially ineligible and, in some cases, fraudulent recipients. We found businesses that

- obtained a Taxpayer Identification Number (TIN) after February 15, 2020;
- exceeded maximum loan amounts based on the number of employees; and
- exceeded maximum size standards.

We found nearly 55,000 loans for approximately $7 billion to potentially ineligible businesses, which placed taxpayer funds at risk of financial loss and delayed the amount of critical program capital available for eligible businesses to withstand the economic effects of the pandemic during the first round of PPP funding.

Businesses with Taxpayer Identification Numbers Registered After February 15, 2020

We found lenders approved PPP loans to businesses with TINs registered after the date that businesses were required to have been in operation, potentially making them ineligible for the PPP. The CARES Act required that businesses must have been in operation on or before February 15, 2020, to be eligible for a PPP loan.[7] SBA required the borrower to provide the TIN and certify that the business was in operation before February 15, 2020, on the loan application to verify eligibility.

We cross-referenced a database of TINs to PPP loan data. We excluded all sole proprietorships from our analysis, because those businesses could have been in operation for some time and be eligible for a PPP loan even though the TIN was registered after February 15, 2020.

The data showed lenders approved more than $402 million in PPP loans to approximately 5,000 potentially ineligible businesses. These businesses likely did not meet the CARES Act eligibility requirement of being in operation on or before February 15, 2020, and they would have been ineligible for PPP loans.

We found more than 2,400 (valued at $229 million) of the 5,000 approved loan recipients had registered the TINs after the enactment of the CARES Act, which may indicate the businesses were created to fraudulently gain access to program funds. We note that multiple borrowers of the 5,000 identified loans have already been arrested, and others are under active investigation.

Our analysis also showed that approximately 2,900 of these businesses obtained TINs more than a month after the February 15, 2020, required date (See Table 2).

[7] 15 USC 636(a)(36)(F)(ii)(II)(aa)

Table 2: Summary of Potentially Ineligible Loans by Registration Date

Date TIN Registered in 2020	No. of TINs Registered	SBA Loan Totals ($)	Avg. Loan Amount ($)
February 15 to February 29	1,262	$79,804,327	$63,236
March 1 to March 15	817	57,600,184	70,502
March 16 to March 31	629	44,767,831	71,173
April 1 to April 15	751	39,326,960	52,366
April 16 to April 30	544	66,399,463	122,058
May 1 to May 15	437	46,012,491	105,292
May 16 to May 31	293	36,407,398	124,257
June 1 to June 15	257	32,636,654	126,991
Totals	**4,990**	**$402,955,308**	**$80,753**

Source: OIG analysis of SBA's mainframe loan accounting system and Treasury Employer Identification Number data

Businesses that Exceeded Estimated Maximum Loan Amounts Based on Number of Employees

Using SBA loan data as of June 30, 2020, we identified more than 43,000 PPP loans totaling $11.7 billion for which the loan amount, net of any portions of the loans cancelled by the lender, exceeded the per-employee maximum loan amount by approximately $3.7 billion. Our analysis showed more than 6,000 additional loans initially exceeded the maximum loan amount per employee. Lenders reduced, or cancelled, approximately $1.7 billion of these loans because of potentially erroneous initial approval amounts.

The Cares Act states that the maximum loan amount is obtained by multiplying the average total monthly payments by the applicant for payroll costs incurred during the 1-year period before the date on which the loan is made times 2.5, plus any outstanding amounts of Economic Injury Disaster Loans made beginning January 31, 2020. The law also says payroll cost does not include the compensation of an individual employee in excess of an annual salary of $100,000.[8]

We analyzed SBA loan data to determine if lenders approved loans in excess of allowed amounts. Using the thresholds established in the CARES Act, we conservatively used $29,999 as the maximum loan amount per employee. The value of $29,999 was calculated based on dividing a $100,000 salary by 12 months and multiplying it by 2.5, resulting in an amount of $20,833. The definition of payroll costs includes other costs such as health care and retirement benefits, so we also allowed for an additional $9,166, or 44 percent.

A significant number of eligible PPP applicants were shut out during the first round of program funding because program funds were exhausted. These potentially ineligible and cancelled loan

[8] 15 USC 636(a)(36)(A)(viii)(I)(aa)

amounts could have gone to applicants who were shut out and did not receive timely economic assistance during the first round of funding.

Businesses that Exceeded Maximum Size Standards

We found 355 businesses that obtained PPP loans totaling approximately $856 million dollars that may have been erroneously approved.[9] Under the CARES Act, an eligible business cannot exceed the greater of 500 employees or the SBA size standard for number of employees in the industry, if applicable.

SBA also allows for another method of determining size known as the "alternative size standard." On April 6, 2020, SBA published an FAQ that stated, "A business could qualify for the Paycheck Protection Program as a small business concern if it passed both tests in SBA's alternative size standard as of March 27, 2020. First, maximum tangible net worth of the business could not be more than $15 million; second, the average net income after federal income taxes (excluding any carry-over losses) of the business for the 2 full fiscal years before the date of the application could not be more than $5 million."

These 355 businesses we found exceeded both 500 employees and the applicable employee-based size standard for the business industry. They could potentially have met the alternative size standard. SBA's ability to assess whether the applicant met the alternative size standard is limited because SBA did not require the borrower to indicate which size standard they had used when applying to self-certify eligibility.

For example, one of the 355 loans was made to a business in the drilling oil and gas industry, with an industry code of 213111, which has an employee-based size standard of 1,000 employees. However, the SBA loan-level data for this loan indicates more than 3,000 employees, exceeding both the CARES Act and SBA employee-based industry size standards. SBA generally establishes either an employee-based size standard or a size standard based on annual average receipts for use in determining eligibility. We identified 4,097 loans totaling approximately $8.9 billion made to businesses that exceeded the CARES Act threshold of 500 employees, but which are in industries where the SBA size standards on average annual receipts. The allowable annual receipts for these range from $1 million to $41.5 million depending on industry.

We identified 123 loans totaling approximately $156 million made to borrowers that reported 5,000 employees or more, 10 times the CARES Act threshold. If a business with the maximum allowable annual receipts had 5,000 employees, the average annual receipts per employee would be only $8,300 per employee. A business with more than 5,000 employees likely exceeded $41.5 million in revenue and would be ineligible for a PPP loan unless they met the alternative size standard, as previously noted (See Table 3).

[9] Our analyses excluded PPP loans made to businesses in the North American Industry Classification System, sector 72, Accommodation and Food Services, because the CARES Act allowed for up to 500 employees per location in that industry.

Table 3: PPP Loans to Businesses with More than 5,000 Employees

Number of Employees	Total Number of Borrowers	Total Amount of Loans
5,000 to 5,999	38	$63,754,574
6,000 to 6,999	34	55,359,069
7,000 to 7,999	16	17,528,402
8,000 to 8,999	16	11,145,942
9,000 or more	19	8,069,215
Total	123	$155,857,202

Source: OIG analysis of SBA's Mainframe Loan Accounting System

Recommendations

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

1. Review the loans identified as potentially ineligible to determine if the businesses met eligibility requirements. If not, take appropriate action related to loan guaranty and forgiveness.
2. For future rounds of PPP lending, assess vulnerabilities in internal controls and strengthen or implement necessary internal controls to address ineligible loans and potential fraud.

Finding 2: Aspects of SBA's Implementation of the PPP Could Result in Unreliable Information to Evaluate Program Objectives

We found SBA's PPP publicly reported and loan-level data was inaccurate and incomplete. We also found SBA's guidance was not sufficient to ensure PPP lenders prioritized underserved markets during the initial round of funding. Consequently, aspects of SBA's implementation of the PPP could lead to insufficient information for Congress and SBA management to determine if program objectives were fully met.

PPP Publicly Reported and Loan-Level Data was Inaccurate and Incomplete

We determined that SBA's publicly reported and loan-level PPP data was inaccurate and incomplete. Job statistics were inaccurate and incomplete, industry classification codes were incomplete, and underserved market data was incomplete. Without accurate and complete data, SBA cannot reliably and accurately inform SBA management and Congress about program effectiveness and measures needed to inform program decisions.

Inaccurate and Incomplete Jobs Statistics

We found that SBA's loan-level data for job statistics was inaccurate and incomplete. In our review of data extracted from SBA's mainframe loan accounting system as of June 30, 2020, we found that

- 191,003 loans totaling approximately $11 billion did not include employment information in the required job field for the number of current employees
- 148,019 loans totaling approximately $6.7 billion had no employment information for the number of current employees and the number of jobs retained
- 845,778 loans did not contain data in the jobs retained field

SBA's system has only one required job field, "number of current employees," which is also on the PPP loan application. However, a "jobs retained" field, which SBA used for public reporting on PPP loans, was not included on the borrower application for PPP loans. SBA officials told us that only fields on the borrower application were mandatory data entry fields to obtain a PPP loan number.

SBA officials said because of a backlog of loan applications before the beginning of the second round of PPP funding, lenders were allowed to submit loan applications in bulk. The officials said they turned off system controls to allow faster approval times.

Of the 191,003 applications that did not have data for the number of current employees, 83,374 were approved during the first week of the second round of funding. Because SBA removed the control to check data in the number of current employees field, these loans totaling approximately $4 billion were not validated before approving and issuing loan numbers to PPP lenders.

SBA did not require borrowers to provide data on jobs retained and did not require lenders to input data for jobs retained at the time of loan application. As a result, SBA officials and national leaders do not have enough information to make informed decisions or determine to what extent the PPP met national program objectives. Additionally, SBA cannot accurately report jobs retained by PPP borrowers, which was a statistic used in public reporting on PPP loans.

Incomplete North American Industry Classification System Data

SBA's loan-level data on PPP North American Industry Classification System codes was incomplete. SBA did not require the borrower to provide the industry classification code on the application, so lenders did not have the information to put in the loan processing platform. As of June 30, 2020, 222,096 loans totaling approximately $9.9 billion were identified as "Unclassified Establishments" because there was no industry classification data on the application.

SBA has historically used the North American Industry Classification System code along with other identifying information for lenders to make a determination about business eligibility. However, SBA did not require lenders to collect the industry classification information on the loan application. The SBA officials we spoke to said they wanted to streamline the application and had decided against including this field at the beginning of the program.

The CARES Act requires the business to have less than 500 employees or meet SBA's established industry size standards to be eligible for a PPP loan. Because SBA does not collect this information on the loan application, lenders cannot accurately determine whether PPP borrowers are eligible for the program nor can SBA accurately report to Congress which industries have obtained PPP loans.

Incomplete Underserved Market Data

As we reported in our Flash Report, we found SBA's demographic information for underserved markets for PPP borrowers was incomplete. SBA's borrower application for PPP did not include standard SBA fields to request optional demographic information. On May 15, 2020, a week after our Flash Report, SBA issued the initial PPP loan forgiveness application, which included an optional page for borrower demographic information.

As of June 30, 2020, PPP lenders had approved approximately 4.7 million loans. SBA data showed that approximately 3.5 million, or 75 percent, of those 4.7 million PPP loans had an undetermined ethnic code. SBA was able to capture whether the borrowers were located in a HUBZone, low-to moderate-income area, or rural county. But our analysis revealed a significant gap in the agency's data on underserved markets, such as ethnic code, veteran status, and women-owned businesses.

SBA included the optional demographic information form on the forgiveness application, but there is the potential that sufficient data may not be collected. Some borrowers may not apply for loan forgiveness and others may choose not to complete an optional separate page of the forgiveness application with the information.

Although ethnic demographic information is optional for SBA's traditional loan programs and the PPP, SBA generally requests the demographic information as a section on a mandatory form. Borrowers have the option to decline to provide the information.

Without complete data on underserved markets SBA's efforts to reach those markets may never be fully known. As a result, SBA will not be able to accurately and completely report to Congress whether it met the intent of the CARES Act in prioritizing and reaching underserved markets.

SBA's Guidance Was Not Sufficient to Ensure PPP Lenders Prioritized Underserved Markets During the Initial Round of Funding

SBA's formal guidance for underserved and rural markets was not sufficient to ensure that PPP lenders were prioritizing underserved markets as intended by the Act, during the initial round of funding. Without clear and timely guidance to prompt lenders to prioritize these borrowers, underserved borrowers may not have obtained critical capital needed to withstand the pandemic.

Section 1102 of the CARES Act included a "Sense of the Senate" statement that said the SBA Administrator should issue guidance to lenders and agents to ensure the processing and disbursement of covered loans prioritized small business concerns and entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals (as defined in section 15 U.S.C. 637(d)(3)(c)), women, and businesses in operation for less than 2 years.[10]

As discussed in our May Flash Report, we did not find evidence that SBA issued any guidance to ensure lenders prioritized helping borrowers from underserved markets. Since we issued our Flash Report, SBA has issued guidance to lenders to assist eligible borrowers in underserved markets.

However, the guidance was not released quickly enough to ensure underserved and rural markets were prioritized in the beginning round of the PPP program. Consequently, underserved borrowers may not have received loans, and the intent of the "Sense of Senate" for underserved and rural markets may not have been realized.

In the April 2, 2020, Interim Final Rule, SBA stated the PPP was "first come, first served." That language specifically contradicted the Sense of the Senate statement about prioritizing underserved markets.

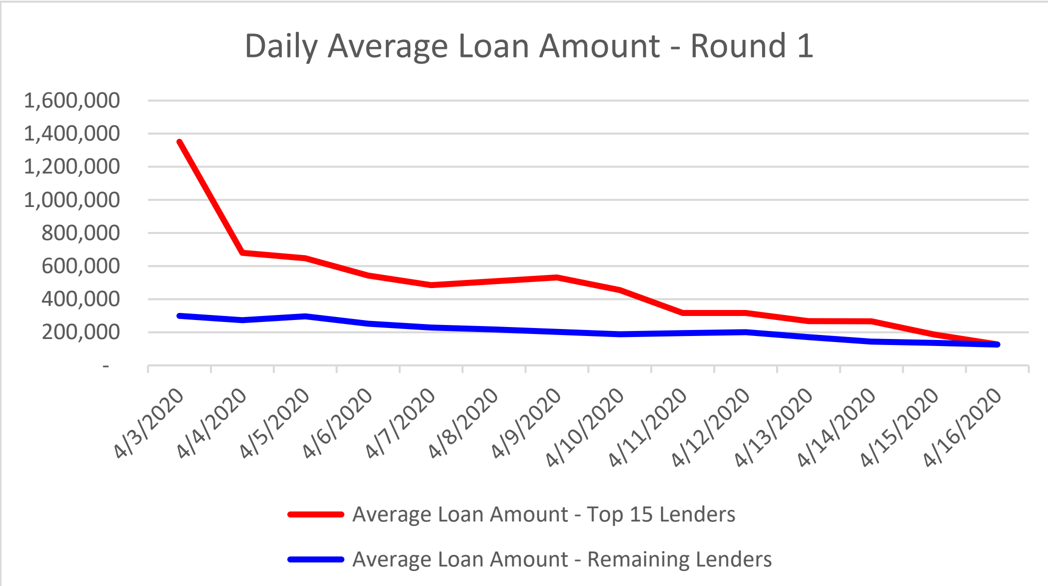
To determine whether lenders processed PPP applications on a "first-come, first served" basis, we attempted to analyze the timing between the borrower's application date and approval. However, SBA's data gathering made that impossible. SBA recorded the application date as the date the lender submitted the loan to SBA for a loan number, not when the borrower applied to the lender. Consequently, the application date and approval date are recorded as the same date.

We sent surveys to 5,265 PPP lenders asking for their perspectives on the effectiveness of SBA's implementation of the program. Our survey asked lenders if their institution prioritized PPP loans to existing customers or used another method. Approximately 57 percent of lenders who responded said they did not process PPP loans on a "first come, first served" basis, as required by SBA.

Instead, our analysis of PPP loan data from round one showed the top 15 lenders prioritized larger loans in the first week of the program (See Figure 1).[11]

[10] 15 USC 636(a)(36)(P)(iv)
[11] Round one included loans approved from April 3 to April 16, 2020.

Figure 1. Top 15 Lenders Prioritized Larger Loans in Round One of PPP



Source: OIG analysis of SBA Mainframe Loan Accounting System Data

The top 15 lenders in round one approved an average loan amount of $526,576 in the first 7 days of the program. By comparison, all the other PPP lenders approved an average of $238,083 in the same period. From days 8 to 14 in round one, the top 15 lenders approved an average loan amount of $243,589, an amount more in line with the 14-day overall average loan amount of $208,043 for round 1 of funding (See Table 4).

Table 4. Average Loan Amount Comparison – PPP Round 1

Lenders	Average Days 1-7	Average Days 8-14	14-day Average
Top 15 Lenders	$526,576	$243,589	$281,340
All Other PPP Lenders	$238,083	$158,740	$190,206
Total Average	$259,912	$180,715	$208,043

Source: OIG analysis of SBA Mainframe Loan Accounting System Data

In response to our Flash Report, on May 14, 2020, SBA officials stated they had done several things to reach underserved markets, including contacting Community Development Financial Institutions, minority depository institutions, farm credits, and certified development companies to encourage lenders to participate in the PPP. SBA also ensured that lenders could access the $60 billion designated by the Enhancement Act for insured depository institutions, credit unions, and community financial institutions to make PPP loans. We recognize that SBA did make efforts to increase the participation of underserved markets, as defined in the CARES Act.

On June 15, 2020, the Administrator issued guidance instructing lenders to "redouble" their efforts to assist eligible borrowers in underserved and disadvantaged communities during the 15 days remaining in the program at the time. On June 19, 2020, SBA announced the launch of a dedicated online tool for small businesses to be matched with community and minority institutions to help them connect with PPP lenders.

SBA also launched a temporary program with current SBA community advantage lenders to be called the Community Advantage Recovery Loan program. SBA stated that this program would provide standard SBA 7(a) loans to PPP borrowers.

Recommendations

We recommend the Administrator to direct the Associate Administrator of the Office of Capital Access to:

3. For future rounds of PPP lending, revise the borrower application to include the critical "jobs retained" field to ensure SBA reports accurate and complete job numbers.
4. For future rounds of PPP lending, revise the application to include the demographic information of borrowers.
5. For future rounds of PPP lending, update the PPP borrower application to include a field for the North American Industry Classification System code of the business and the business description to enable SBA to prevent potentially ineligible loan approvals.
6. Update the PPP forgiveness application to include North American Industry Classification System code to ensure that previously recorded information is accurate.

Other Matters

SBA Implemented Improvements to Overcome Challenges Faced During the Initial PPP Implementation

We determined that aspects of SBA's initial implementation of the PPP were not executed efficiently. However, SBA later made corrections to clarify program guidance and improved the electronic loan processing platform to allow the program to operate more effectively.

Initial Guidance Resulted in Confusion Amongst Lenders

SBA released the first Interim Final Rule about the PPP for lenders on April 2, 2020. This interim rule outlined the key provisions required by Sections 1102 and 1106 of the Act. The interim rule covered borrower requirements, including program eligibility and allowable uses of loan proceeds, as well as loan terms, forgiveness, and compliance. The April 2 interim rule also covered eligibility for lender participation and underwriting standards including statements the lender could rely on for loan decisions.

Between April 3 and June 25, 2020, SBA issued 19 additional interim final rules on issues related to borrower eligibility, loan terms, and forgiveness. During that period, SBA answered 28 FAQs specifically related to affiliation, borrower certifications, eligibility, and payroll costs. Between the interim final rules and FAQs, SBA issued a total of 47 guidance documents to clarify previously issued guidance on topics related to borrowers.

Our survey of PPP lenders asked if SBA provided clear and timely guidance for PPP requirements. Approximately 75 percent of the respondents said SBA's initial program guidance was not clear or timely. However, approximately 71 percent added the clarifying guidance improved the lenders' ability to make loans under the program.

SBA Did Not Issue Guidance and Regulations to Fully Implement Loan Forgiveness by the Deadline

SBA was required to issue guidance and regulations to implement PPP loan forgiveness within 30 days of the date of enactment of the CARES Act.[12] However, SBA issued the initial PPP forgiveness application after 49 days on May 15, 2020, and the first Interim Final Rule specifically for loan forgiveness after 56 days on May 22, 2020.

SBA's April 2 Interim Final Rule answered specific questions related to loan forgiveness. Questions included:

- Can my PPP loan be forgiven in whole or in part?
- Do independent contractors count as employees for purposes of PPP loan forgiveness, and
- Can lenders rely on borrower documentation for loan forgiveness?

Additionally, SBA responded to two FAQs within 30 days of the CARES Act, related to aspects of loan forgiveness. However, the questions and answers gave only limited guidance and the regulations did not fully implement section 1106 of the CARES Act.

A May 16, 2020, SBA press release stated, "SBA will also soon issue regulations and guidance to further assist borrowers as they complete their applications and to provide lenders with guidance

[12] Division A Section 1106 (k) of CARES Act

on their responsibilities." SBA was still in the process of issuing guidance and regulations on loan forgiveness 48 days after the enactment of the CARES Act. Section 1106 clearly had not entirely been implemented as required within 30 days.

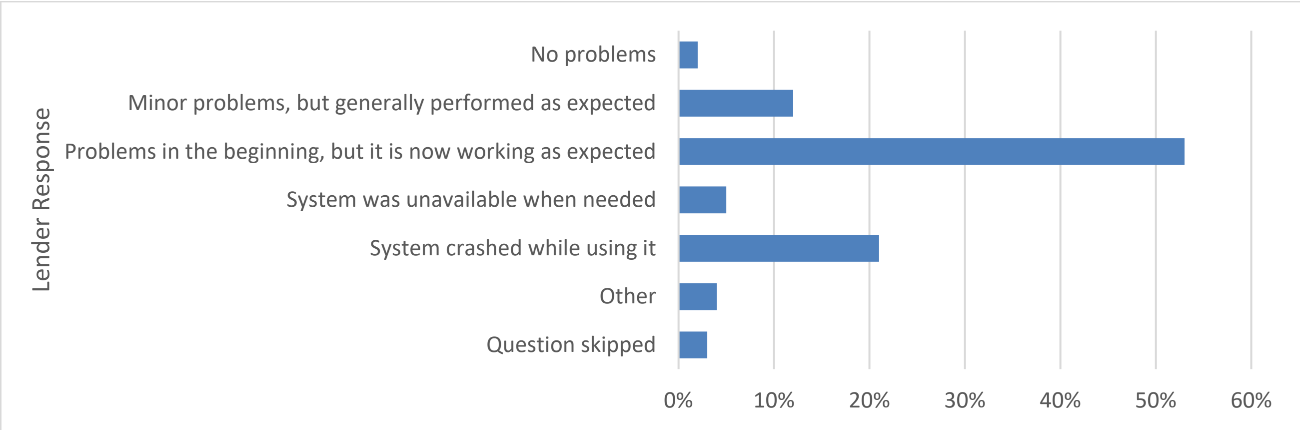
In our survey, we asked the lenders if they understood their responsibilities in loan forgiveness. Approximately 41 percent of the lenders stated they did not understand their responsibilities in the forgiveness process based on the guidance and applications issued by SBA. However, on July 23, 2020, while our survey was out for response, SBA issued a procedural notice announcing procedures for lender submission of PPP forgiveness decisions.[13] We also note that numerous lenders said on the survey that the uncertainty surrounding forgiveness was the reason their borrowers returned PPP funds.

The delay in PPP guidance and regulations caused uncertainty for lenders and borrowers about forgiveness requirements on eligible amounts. Lenders may not have been adequately prepared to process and review forgiveness applications, including determining limits on loan forgiveness amounts. Also, borrowers may have been fearful about applying for or spending loan funds when they were uncertain how and when they should use the funds for the loan to be forgiven.

SBA's Electronic Loan Processing Platform Did Not Operate Effectively at the Beginning of the Program

SBA's Electronic Loan Processing Platform (E-Tran) did not operate effectively at the beginning of the PPP. PPP lenders were unable to access the loan processing platform for varying periods of time and experienced slow loan application processing times. Because PPP lenders were unable to access or experienced slow processing times, borrowers who submitted loans most likely experienced delays in receiving their loan funds. We asked about the lender's experience with E-Tran in our lender survey, and approximately 26 percent said the system was not always available when needed or crashed while they were using it. However, approximately 53 percent of the lenders indicated that although they initially had problems with the system, it is currently working as expected (See Figure 2).

Figure 2. Survey Results of Lender Experience with SBA's E-Tran for PPP Loans



Source: OIG PPP Lender Survey

[13] SBA Procedural Notice Control Number: 5000-20038

SBA officials told us the system problems were caused by increased numbers of users, multiple users in the same institutions accessing the system, as well as lenders using new robotic or other automatic methods of submission that had not been tested with E-Tran. The increase in the numbers of system users burdened the processing platform. To correct the problems, SBA added additional memory capacity. Additionally, on April 28, 2020 SBA banned robotic processing automation from accessing the platform. SBA also began managing the network usage by user to reduce the effects of user load on the system and introduced a bulk processing submission to help reduce backlogged applications when the second round of PPP funding began.

Analysis of Agency Response

The Administrator provided the response to our draft report (See Appendix II). As indicated in the Administrator's response, SBA also provided a memorandum and technical comments that addressed the report's findings and recommendations. We considered SBA's comments when preparing this final report. SBA management provided recommendation action sheets for each recommendation indicating they fully agreed with 5 of the 6 recommendations. Specifically, they agreed with recommendations 1, 2, 4, 5, and 6. Management disagreed with recommendation 3, but provided an alternative solution that satisfied the intent of the recommendation.

OIG Analysis of Agency's Response

The Administrator stated in her response that the report recommendations 1 and 2, which in part recommended SBA (1) review the loans identified as potentially ineligible and take appropriate action related to loan guaranty and forgiveness, and (2) assess vulnerabilities and strengthen internal controls for future rounds of PPP were well-taken, but not necessary. The Administrator stated that SBA was already undertaking a robust loan review process of existing PPP loans and implementing enhanced internal controls for the next round of PPP lending. The Administrator further stated the loan review process is detailed in the PPP Master Review Plan (MRP), which is being provided to the OIG. Per the Administrator, SBA screens loans for the very risk factors that OIG expressed concern about in the Draft Report, including loan amount, business size, and the date a business began operation. The response also states that the loan review process includes automated screenings and manual reviews of selected loans to test for compliance with general program requirements and to evaluate the accuracy of the borrowers' self-certifications and material representations.

The response details that loans determined through the loan review process to have been made to ineligible borrowers will not be forgiven. SBA also will pursue all available legal remedies, including repayment and civil and criminal penalties, against borrowers engaged in activity that resulted in their obtaining ineligible loans. Further, if the lender did not comply with its responsibilities under the program rules, the loan guaranty may be at risk.

Lastly, the Administrator stated that pursuant to the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and consistent with the OIG recommendation to strengthen internal controls for new PPP lending, SBA is examining borrower eligibility upfront when the lenders submit the loans to SBA for processing for new PPP lending. SBA will search every new PPP loan application against the Treasury Department's Do Not Pay list and public record identity verification systems. The administrator stated these efforts, which align fully with the recommendations in the Draft Report, reflect SBA's ongoing commitment to protecting taxpayer dollars and ensuring that PPP benefits only eligible borrowers.

The OIG appreciates the Administrator's acknowledgement of the necessity of sufficient internal controls to reduce the risk of financial loss from PPP loans being made to ineligible or fraudulent borrowers. However, we must note that unfortunately, SBA officials did not provide most of the information presented in their response until after our inspection process was completed and the draft report was issued to the agency. During our inspection, SBA officials indicated that the review plan was still being finalized. It is further noted that the provided Master Review Plan is still in a pre-decisional draft format. The scope period of our inspection was through June 30, 2020. SBA did not provide the pre-decisional draft Master Review Plan (dated October 2, 2020) to our office until January 4, 2021.

Notwithstanding any existing controls that SBA stated it already had in place during the course of inspection, we found that SBA's efforts to hurry capital to businesses were at the expense of controls that could have reduced the likelihood of ineligible or fraudulent business obtaining a PPP loan and aspects of SBA's implementation of the PPP could prevent Congress and SBA management from having the information needed to determine if program objectives were fully met. Therefore, it is critical that SBA fully implements or develops sufficient alternatives to the six recommendations provided in this report to ensure that PPP funding is provided to eligible businesses only and that SBA and Congress has sufficient information to assess the outcome of program objectives. Our office plans to conduct future projects related to SBA's loan review process to determine the effectiveness of the process. We will also require SBA to provide sufficient evidence to substantiate their stated corrective actions implemented to address the recommendations provided in this report.

Summary of Actions Necessary to Close the Recommendations

The following details the status of our recommendations and the actions necessary to close them.

Recommendation 1

Review the loans identified as potentially ineligible to determine if the businesses met eligibility requirements. If not, take appropriate action related to loan guaranty and forgiveness.

Status: Resolved

SBA management agreed with this recommendation, stating it implemented a robust loan review process for reviewing potentially ineligible loans prior to forgiveness decisions and is currently undertaking loan reviews. SBA stated it did this in accordance with its Master Review Plan. SBA management also stated that for PPP loans approved under the Economic Aid Act, SBA would implement comprehensive loan review processes on borrower applications to prevent ineligible loans from being approved or funded. Management states that its final action date for completion was January 4, 2021. This recommendation can be closed when management provides evidence that it reviewed the loans OIG identified for compliance with PPP eligibility requirements.

Recommendation 2

For future rounds of PPP lending, assess vulnerabilities in internal controls and strengthen or implement necessary internal controls to address ineligible loans and potential fraud.

Status: Resolved

SBA management agreed with this recommendation, stating it had already assessed vulnerabilities in internal controls and strengthened or implemented the necessary internal controls to address ineligible loans and potential fraud in accordance with its Master Review Plan. SBA management also stated that for PPP loans approved under the Economic Aid Act, SBA will implement these comprehensive internal controls on borrower applications to prevent fraud and to prevent ineligible loans from being approved or funded. Additionally, SBA management stated that for new PPP loans SBA is examining borrower eligibility upfront when the lender submits the loan to SBA. SBA states every new PPP loan application submitted to SBA will be searched against the Treasury Department's Do Not Pay list and public record identity verification systems. Management states that its final action date for completion was January 4, 2021. This recommendation can be closed when SBA provides evidence of the internal controls that were established to reduce the risk of approval of ineligible loans and the potential for fraud.

Recommendation 3

For future rounds of PPP lending, revise the borrower application to include the critical "jobs retained" field to ensure SBA reports accurate and complete job numbers.

Status: Resolved

SBA management disagreed with this recommendation, stating it determined that given the current economic circumstances, jobs retained cannot be accurately captured at the loan application stage. However, management stated that it captures jobs retained in the loan forgiveness application. Management states that its final action date for completion was January 4, 2021. Management's action satisfies the intent of the recommendation. This recommendation can be closed when management provides evidence that it no longer uses jobs retained in its public reporting and provides evidence that SBA captures the job retained figures in the loan forgiveness process to ensure the accuracy of SBA's public reporting on PPP loans.

Recommendation 4

For future rounds of PPP lending, revise the application to include the demographic information of borrowers.

Status: Resolved

SBA management agreed with this recommendation, stating for future rounds of PPP, SBA revised the borrower application and SBA forms to include voluntary disclosure for borrower demographic information. Management also stated that it will take action as soon as they have finalized regulations to draft program application forms. Management states that its final action date for completion was January 4, 2021. This recommendation can be closed when SBA provides evidence that the borrower application for PPP loans was revised to include the demographic information for borrowers.

Recommendation 5

For future rounds of PPP lending, update the PPP borrower application to include a field for the North American Industry Classification System code of the business and the business description to enable SBA to prevent potentially ineligible loan approvals.

Status: Resolved

SBA management agreed with this recommendation, stating for future rounds of PPP SBA has revised the borrower application to mandate North American Industry Classification System code information before an application can be submitted to SBA for processing. Management also stated it has revised the borrower application to include a field for the North American Industry Classification System code, which provides a business description. Management states that its final action date for completion was January 4, 2021. This recommendation can be closed when SBA provides evidence that the borrower application for PPP loans includes a field for the North American Industry Classification System code and provides evidence that the loan processing platform includes a validation for lenders to input the North American Industry Classification System code prior to the system providing a loan number to the lender to enable SBA to prevent potentially ineligible loan approvals.

Recommendation 6

Update the PPP forgiveness application to include North American Industry Classification System code to ensure that previously recorded information is accurate.

Status: Resolved

SBA management agreed with this recommendation, stating SBA would update the PPP forgiveness applications to include a field for the North American Industry Classification System code, which provides a business description. SBA management also stated that it, in consultation with Treasury, is updating the PPP forgiveness applications to include a field for the North American Industry Classification System code, which i provides a business description. Management states that its final action date for completion was January 4, 2021. This recommendation can be closed when SBA provides evidence that it updated the PPP forgiveness applications to include a field for the North American Industry Classification System code and provides evidence that the existing North American Industry Classification System code data has been validated or corrected based on the forgiveness application submissions.

Appendix I: Objective, Scope, and Methodology

Our objective was to assess SBA's implementation of the Paycheck Protection Program, including the timing of implementation, lender participation, guidance provided to lenders and staff, timeliness of loan approval and disbursement, and systems used to process lender loan approvals.

To meet our objective, we reviewed background information for SBA's related activities and interviewed key personnel responsible for the implementation of the Paycheck Protection Program. We interviewed officials from the Office of Capital Access, Office of Credit Risk Management, and the Office of Performance and Systems Management about their roles and responsibilities for the PPP, implementation of PPP, and their interpretation of critical sections of the CARES Act.

We reviewed all pertinent federal, departmental, and SBA specific regulations, policies, procedures and guidance, including the CARES Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, Interim Final Rules, Frequently Asked Questions, Information Notices, and program forms for the PPP.

We created and distributed a survey to 5,265 PPP lenders to learn their perspectives on SBA's implementation of the program and to determine if SBA faced any challenges implementing the program. We received 1,207 lender survey responses.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Those standards require that we adequately plan and perform the evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence provides a reasonable basis for our conclusions based on our objective.

Use of Computer-Processed Data

We relied on information from SBA's Mainframe Loan Accounting System, E-Tran, and data from the Office of Performance and Systems Management to conduct our analyses. We also obtained lender data from the Office of Capital Access and the Office of Credit Risk Management to determine the number of financial institutions approved for participation in the PPP. Our scope of work covered March through June 2020. We conducted numerous analyses of PPP data to determine if SBA's reported data was reliable and whether lenders disbursed loans in a timely manner.

We determined that certain elements of SBA's PPP data were not reliable because they were inaccurate, incomplete, or both. Specifically, we found that job statistics were inaccurate and incomplete; underserved market data was incomplete; and the North American Industry Classification System code data was incomplete. We note the data SBA provided to show PPP approvals through June 30, 2020, only included approvals through June 24, 2020. We provided SBA recommendations in this report to address the identified data reliability issues. However, we believe the data is sufficiently reliable to support our report conclusions.

SBA RESPONSE TO INSPECTION REPORT

U.S. Small Business Administration
Washington, D.C. 20416

OFFICE OF THE ADMINISTRATOR

January 4, 2021

The Honorable Hannibal "Mike" Ware
Inspector General
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Dear Inspector General Ware:

I value and respect the important role that the Office of Inspector General ("OIG") plays in combatting fraud and abuse at the Small Business Administration ("SBA"). Your office is a critical resource for the Agency in our efforts to achieve economy, efficiency, and effectiveness in our programs and operations, which have supported millions of small businesses, nonprofit organizations, independent contractors, and sole proprietors impacted by the COVID-19 pandemic.

I write regarding OIG's December 10, 2020 Draft Report, titled "Inspection of SBA's Implementation of the Paycheck Protection Program" ("Draft Report"). The Office of Capital Access ("OCA") is providing a detailed memorandum and technical comments in response to the Draft Report as a part of SBA's efforts to work with OIG to ensure the accuracy and comprehensiveness of its audits. But I am writing separately to address the recommendations in the Draft Report, which include a recommendation that SBA review potentially ineligible loans and take action with respect to loan guaranties and forgiveness, as appropriate, and a recommendation to strengthen internal controls for future Paycheck Protection Program ("PPP") lending. I appreciate your office providing these recommendations. They are well-taken, but fortunately unnecessary, as SBA already is undertaking a robust loan review process of existing PPP loans and implementing enhanced internal controls for the next round of PPP lending.

The loan review process is detailed in the Paycheck Protection Program Master Review Plan ("MRP"), which is being provided to OIG. Among other things, SBA screens loans for the very risk factors that OIG expressed concern about in the Draft Report, including loan amount, business size, and the date a business began operation.

As detailed in the MRP, loan reviews are conducted under SBA-developed protocols, by SBA staff and contractors—all operating under the supervision of OCA. The loan review process includes automated screenings and manual reviews of selected loans to test for compliance with general program requirements and to evaluate the accuracy of the borrowers' self-certifications and material representations. Loans determined through the loan review process to have been made to ineligible borrowers will not be forgiven. SBA also will pursue all available legal remedies, including repayment and civil and criminal penalties, against borrowers engaged in activity that resulted in their obtaining ineligible loans. Further, if the lender did not comply with its responsibilities under the program rules, the loan guaranty made be at risk.

As you undoubtedly are aware, SBA is embarking on a new round of PPP lending, pursuant to the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act. Consistent with your recommendation to strengthen internal controls for new PPP lending, for these new PPP loans, SBA is examining borrower eligibility upfront when the lenders submit the loans to SBA for processing. For example, every new PPP loan application submitted to SBA for processing by a lender will be searched against the Treasury Department's Do Not Pay list and public record identity verification systems.

These efforts, which align fully with the recommendations in the Draft Report, reflect SBA's ongoing commitment to protecting taxpayer dollars and ensuring that PPP benefits only eligible borrowers. We are happy to discuss with you the loan review process and the new front-end controls.

Sincerely,

JOVITA CARRANZA

Jovita Carranza

Administrator