Office of the Special Inspector General for Pandemic Recovery
Office of Audits

Interim Report: Audit of the Effects the Main Street Lending Program's Loan Losses Have on Treasury's Investment in the Program

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SUBJECT: Interim Report: Audit of the Effects the Main Street Lending Program's Loan Losses Have on Treasury's Investment in the Program A-23-002-6

The purpose of this interim report is to provide information about data we are collecting on the performance of Main Street Lending Program (MSLP) loans. We are collecting and reviewing this information as part of our *Audit of the Effects the Main Street Lending Program's Loan Losses Have on Treasury's Investment in the Program (A-23-002).* This is an update of Interim Report Number A-23-002-5, issued on November 7, 2023.

Our November 7, 2023 interim report covered increases in MSLP loan losses as the borrowers' initial principal payments started to become due. Now that all borrowers' initial principal payments have become due, we are providing an update to the MSLP loan loss figures.

Background

On April 9, 2020, the Board of Governors of the Federal Reserve System and Secretary of the Treasury announced the establishment of the MSLP under the authority of Section 13(3) of the Federal Reserve Act, with approval of the Secretary. In total, 319 lender banks participated in the MSLP issuing 1,830 loans to small and medium sized businesses. The total value of the loans issued was approximately $17.5 billion. The Federal Reserve Bank of Boston, which manages the program, set up a Special Purpose Vehicle (SPV) to purchase 95 percent of participations in MSLP loans from lender banks. These purchases were backed by a $16.6 billion equity investment by the Department of the Treasury (Treasury). The lender banks retain the remaining 5 percent of the risk associated with making a loan.

Payment terms for MSLP loans are for five years. No payments were due in the first year. After the first year of the loan, interest payments became due in accordance with the loan agreement. No principal was due in the first or second year of the loan. The loans are amortized over the remaining term of the loan with 15 percent of principal due at the end of year three, 15 percent due at the end of year four, and a balloon payment of 70 percent at the end of year five.

All MSLP loans were issued between July 2020 and January 2021. Therefore, interest payments were the only payments due through the end of June 2023. The initial 15 percent principal payments became due for the earliest MSLP loans in July 2023, and became due for all loans by January 2024.

Loan Losses Increased as Initial Principal Payments Became Due

MSLP loan loss figures increased significantly once initial principal payments came due on the loans. The initial 15 percent principal payment became due on MSLP loans in 2023, three years after loan issuance. All MSLP loans were issued between July 2020 and January 2021, meaning all initial principal payments became due between July 2023 and January 2024.

As of July 31, 2023, 43 MSLP loans had been declared a loss, at a value of $164 million. In the six months between July 31, 2023 and January 31, 2024, the Federal Reserve charged off an additional 39 MSLP loans, and the total losses increased to $572 million. This represents a six month increase of over $400 million. See **Figure 1**.

Figure 1 – MSLP Loan Loss Amounts Between July 2023 and January 2024

Reporting Date	MSLP Loan Losses
07/31/2023	$164,000,000
08/31/2023	$210,000,000
09/30/2023	$257,000,000
10/31/2023	$301,000,000
11/30/2023	$359,000,000
12/31/2024	$564,000,000
01/31/2024	$572,000,000

The Federal Reserve Board issues Periodic Reports each month to update its outstanding lending facilities authorized by the Board under Section 13(3) of the Federal Reserve Act. As part of these reports, the Board provides updates on the amount of outstanding MSLP loans, the amount of actual loan losses recognized, and the allowance for loan losses in the MSLP. The numbers in **Figure 1** represent the MSLP loss figures the Board reported in its Periodic Reports covering the period when all borrowers' initial principal payment became due.

Suspected Fraud Investigations

Several loans that have been declared a loss by the Federal Reserve Board are under investigation for suspected fraud on the part of the borrower. As of January 31, 2023, 82 loans comprise the $572 million in losses. Of the 82 loans that have been declared a loss by the Federal Reserve, 28 loans are or were under investigation for suspected fraud. SIGPR continues to review the 1,018 outstanding MSLP loans (with Federal Reserve participations of over $7.5 billion) for suspected fraud, waste, and abuse.

Conclusion

MSLP loan losses have increased significantly during the period when the borrowers' initial 15 percent principal payments became due. Loan losses increased by nearly 250 percent between July 2023 and January 2024, increasing from $164 million to $572 million. The number of loans declared a loss increased nearly 100 percent, from 43 to 82 loans.

A significant number of loans that were declared a loss by the Federal Reserve Board are or were under investigation for suspected fraud. Of the 82 loans declared a loss as of January 31, 2024, 28 of them (34 percent) are or were under investigation.

While there are over 1000 MSLP loans still outstanding representing over $7.5 billion in Federal Reserve participations, SIGPR is due to sunset and cease operations in March 2025. As such, the office has begun efforts to downsize and prepare for the shutdown. As of June 2023, before MSLP principal payments became due, SIGPR had 51 full time employees. As of February 29, 2024, that number has decreased to 37. SIGPR will continue to monitor MSLP loan losses and conduct investigations into suspected fraud as resources allow.

Compliance Statement

In accordance with generally accepted government auditing standards (GAGAS), during an audit, the auditors may provide interim reports to appropriate entity and oversight officials. This communication is informational in nature and requires no further action from management.

The related ongoing audit, when completed, will comply with GAGAS. The associated performance audit report that will be issued in the future will incorporate the information discussed in this report.

Audit Team

This audit is managed and conducted by the individuals listed below:

Kevin Gallagher	Audit Manager
Victor Martinez	Auditor-In-Charge

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