

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

# **SBA's Use of Hold Codes for Potentially Fraudulent PPP Loans Referred by Lenders**



**Management Advisory**

**Report 25-07**

**January 16, 2025**



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### **NOTICE:**


Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to [AIGA@sba.gov](mailto:AIGA@sba.gov) within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



**OFFICE OF INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**MEMORANDUM**

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**Date:** January 16, 2025  
**To:** Isabella Casillas Guzman  
Administrator  
**From:** Hannibal "Mike" Ware  
Inspector General   
**Subject:** SBA's Use of Hold Codes for Potentially Fraudulent PPP Loans Referred by Lenders  
(Report 25-07)

The Office of Inspector General (OIG) is issuing this management advisory to bring to your attention concerns regarding SBA's Use of Hold Codes for Potentially Fraudulent PPP Loans Referred by Lenders. These issues require SBA's attention and action to ensure it promptly flags loans referred by lenders as suspected of fraud or illegal activity to mitigate fraud risk and financial loss.

We considered management comments on the draft of this report when preparing the final report. SBA management partially agreed with four recommendations and agreed with one recommendation.

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

cc: Dilawar Syed, Deputy Administrator  
Arthur Plews, Chief of Staff  
Isabelle James, Deputy Chief of Staff  
Kathryn Frost, Associate Administrator, Office of Capital Access  
John Miller, Deputy Associate Administrator, Office of Capital Access  
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# Background

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The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020, with Section 1102 providing \$349 billion to create the Paycheck Protection Program (PPP) under Section 7(a) of the Small Business Act. The PPP provided fully guaranteed Small Business Administration (SBA) loans for certain eligible borrowers that could be forgiven if loan proceeds were used as required by law. Eligible expenses include payroll, rent, utility payments, and other limited uses. Additional legislation increased total program funding to \$813.7 billion.

Over 5,400 lenders originated PPP loans during the program and were responsible for originating and servicing them. Lenders underwriting PPP loans were required to follow applicable Bank Secrecy Act (BSA) requirements or, for lenders not subject to the BSA, establish a comparable anti-money laundering compliance program, which may include a customer identification program to validate borrower information. These requirements positioned PPP lenders to reduce the risk of financial fraud and loss. At the end of the loan lifecycle, lenders were also responsible for processing borrowers' PPP forgiveness applications. Within 60 days after receiving the forgiveness application from the borrower, lenders were expected to perform a good faith review, decide on loan forgiveness, and issue a forgiveness decision to SBA, along with required documents to support their forgiveness decisions.<sup>1</sup> The agency was required to remit the appropriate forgiveness amount to a lender within 90 days of receiving the lender's forgiveness decision. Under certain circumstances, borrowers could apply for forgiveness directly through SBA's forgiveness platform.

Participating lenders also were required to notify both SBA's Office of Credit Risk Management (OCRM) and SBA's Office of Inspector General (OIG) of any information indicating that fraud or illegal activity may have occurred in connection with a 7(a) loan, which includes PPP loans. SBA uses hold code 50 to flag PPP loans referred to it by lenders as being potentially fraudulent. Flagging a loan with this hold code should prevent additional actions, such as forgiveness, guaranty purchase and referrals to Treasury or approval of 7(a) loans, from occurring until after the loan is reviewed and cleared for further processing.

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<sup>1</sup> SBA Procedural Notice 5000-20038, *Procedures for Lender Submission of Paycheck Protection Program Loan Forgiveness Decisions to SBA and SBA Forgiveness Loan Reviews*, July 23, 2020.

Additionally, in August 2023, SBA OCRM officials initiated a special project to request and obtain potentially fraudulent PPP loan information from lenders. OCRM officials initiated the project after determining that they were not receiving the complete universe of potentially fraudulent PPP loans despite SBA's requirement for lenders to notify OCRM of PPP loans suspected of fraud or illegal activity.<sup>2</sup> OCRM officials also stated they wanted to ensure lenders were making referrals to the OIG. Therefore, OCRM requested that lenders provide a list of PPP loans they identified with indications of fraud or illegal activity and whether they were reported to SBA OIG. According to OCRM officials, 90 percent of PPP lenders responded via email specifying whether they had or did not have PPP loans suspected of fraud or illegal activity in their portfolio. However, SBA did not receive a response from the remaining 10 percent even though lenders were required to make SBA loan information available to SBA in a timely manner.<sup>3</sup> Based on our analysis of OCRM's summary workbook, which the office uses to compile lender-referred suspicious loans, we determined lenders referred 191,252 PPP loans totaling \$8.8 billion they suspected of fraud or illegal activity.

## **SBA's Use of Hold Code 50**

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Opportunities exist for SBA to enhance its handling of lender-referred PPP loans suspected of fraud or illegal activity and its process for capturing these loans to ensure they are promptly flagged to mitigate fraud risk and financial loss. OCRM established an outreach project for lenders to refer PPP loans suspected of fraud or illegal activity; however, we found that SBA did not flag all suspicious loans referred by lenders with a hold code 50 or capture all the loans in its summary workbook. Promptly flagging suspicious loans with hold code 50 would require manual reviews to take place prior to forgiveness, or as part of a post-forgiveness examination, which could identify opportunities to recover improper payments.

### **Flagging Suspicious PPP Loans Referred by Lenders**

SBA established a special project for lenders to refer PPP loans suspected of fraud or illegal activity and, as of March 1, 2024, lenders referred 191,252 suspicious loans, totaling \$8.8 billion. While SBA had already flagged 145,491 of these loans (76 percent), totaling over \$6 billion, it did not promptly flag the remaining 45,761 loans (24 percent), totaling \$2.7 billion, with a hold code 50, which would require targeted action, such as manual reviews during forgiveness and post-

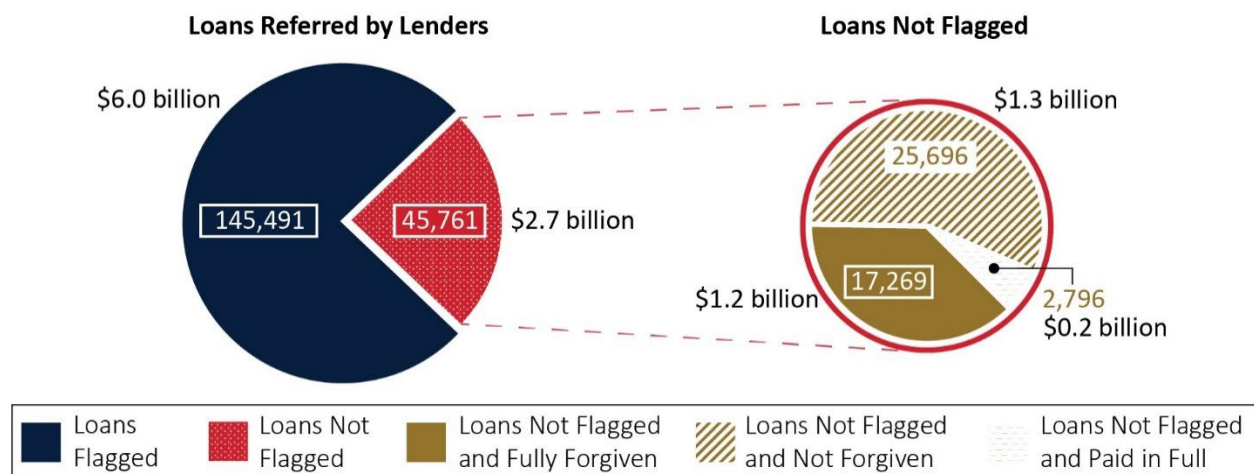
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<sup>2</sup> SOP 50 10 6, *Lender and Development Company Loan Programs*, October 1, 2020.

<sup>3</sup> SOP 50 57 3, *7(a) Loan Servicing and Liquidation*, August 1, 2023.

forgiveness examinations. Of the unflagged loans, 25,696, totaling \$1.3 billion, had not been forgiven and 17,269, totaling \$1.2 billion, had been fully forgiven. Loans that had not been forgiven included those with no forgiveness applications, those where forgiveness had not been approved, and those that were partially forgiven and had an outstanding balance. Borrowers paid in full the remaining 2,796 loans, totaling \$208.2 million, which may indicate the borrower was ineligible or did not use loan funds in accordance with requirements. PPP loans could be fully forgiven for eligible borrowers who used loan proceeds as required by the law. See Figure 1 for a depiction of the status of loans referred to OCRM by lenders.

**Figure 1: Status of Loans Referred by Lenders**



Source: OIG analysis of PPP portfolio data.

SBA did not flag all PPP loans referred by lenders as suspected of fraud or illegal activity because OCRM wanted to validate the referred loan information with the lenders first. According to OCRM officials, when they initially requested the suspicious loan information from lenders, they did not consider that lenders may submit loans that were previously considered potentially fraudulent, but subsequently cleared. OCRM did not have assurance that the referred loans were still potentially fraudulent as it only requested that lenders provide the following for all loans the lenders suspected of fraud or illegal activity:

- Loan number
- Loan was/was not reported to SBA OIG

OCRIM’s delayed response regarding flagging the loans was not consistent with SBA’s established procedures or the way other program offices handled lender referrals. According to SBA



procedures, after it receives a fraud referral from a lender, the loan is flagged with a hold code 50 to identify potential fraud. Further, the U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* state that management should process data into quality information and use that to achieve the entity's objectives and address risks.<sup>4</sup> Quality information is appropriate, current, complete, accurate, accessible, and provided on a timely basis. While OCRM obtained the loan numbers for those loans suspected of fraud or illegal activity, it did not process that information to flag the loans timely. Further, program officials from SBA's Fraud Team stated that no information other than the loan number was required to promptly flag loans referred by lenders as potentially fraudulent or illegal.

The GAO *Standards for Internal Control in the Federal Government* also recommends promptly recording transactions to maintain their relevance and value to management in controlling operations and making decisions. Although OCRM received referred loans beginning in September 2023, it waited until June 2024 to contact lenders for updated information regarding the referred loans and planned to provide the updated list of loans for flagging to the Office of Financial Program Operations (OFPO) by July 1, 2024. During our review, OCRM decided to only contact those lenders who had not responded to their initial request, or who had responded that no fraudulent loans existed in their PPP portfolio. OCRM did not reach out to the lenders that had reported suspicious loans to confirm whether the risk of potential fraud still existed as OCRM stated was necessary in order to flag the loans. As of September 24, 2024, OCRM had not provided the list of loans to OFPO for flagging.

The 45,761 suspicious PPP loans totaling \$2.7 billion referred by lenders but not flagged with a hold code 50 increase the risk of financial loss. Specifically, for the 25,696 loans totaling \$1.3 billion that have not been forgiven, borrowers could receive forgiveness without SBA conducting the required targeted reviews to mitigate improper payments. Additionally, for the 17,269 loans totaling \$1.2 billion that have already been fully forgiven, SBA may not target them for post-forgiveness review, which could identify opportunities to recover improper payments.

Further, unflagged loans pose a risk that borrowers with suspicious PPP loans may obtain other SBA loans. In a prior SBA OIG report, we noted SBA implemented a process to screen 7(a) loan applications for eligibility, which included screening for PPP hold codes, prior to loan approval.<sup>5</sup> However, this process will not be as effective if SBA does not flag suspicious PPP loans;

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<sup>4</sup> GAO-14-704G, *Standards for Internal Control in the Federal Government*, September 2014.

<sup>5</sup> OIG Report No. 24-17, *7(a) Loan Approval for Borrowers with Unresolved COVID-19 Pandemic Loan Compliance Issues*, May 21, 2024.

therefore, the agency is missing an opportunity to prevent and mitigate fraud across its other loan programs.

We also compared loans identified as potentially fraudulent through the *SBA OIG COVID-19 Fraud Landscape*<sup>6</sup> and *Pandemic Response Accountability Committee (PRAC) Fraud Alert: Questionable Social Security Numbers*<sup>7</sup> reports to the suspicious loans that lenders referred to OCRM. Of the 45,761 referred loans not flagged with a hold code 50, there were 31,329, totaling \$1.4 billion, identified in the Fraud Landscape report and 360, totaling \$32.4 million, identified in the PRAC report. This overlap provides a strong indicator that those loans could be fraudulent.

## **Capturing Suspicious PPP Loans Referred by Lenders**

We compared PPP loan numbers in OCRM's summary workbook to a sample of loans referred by lenders and found that OCRM did not capture 7,672 PPP loans, totaling \$437.8 million, that lenders referred as being suspected of fraud or illegal activity in its summary workbook. These loans were in addition to the 191,252 referred PPP loans included in the workbook.

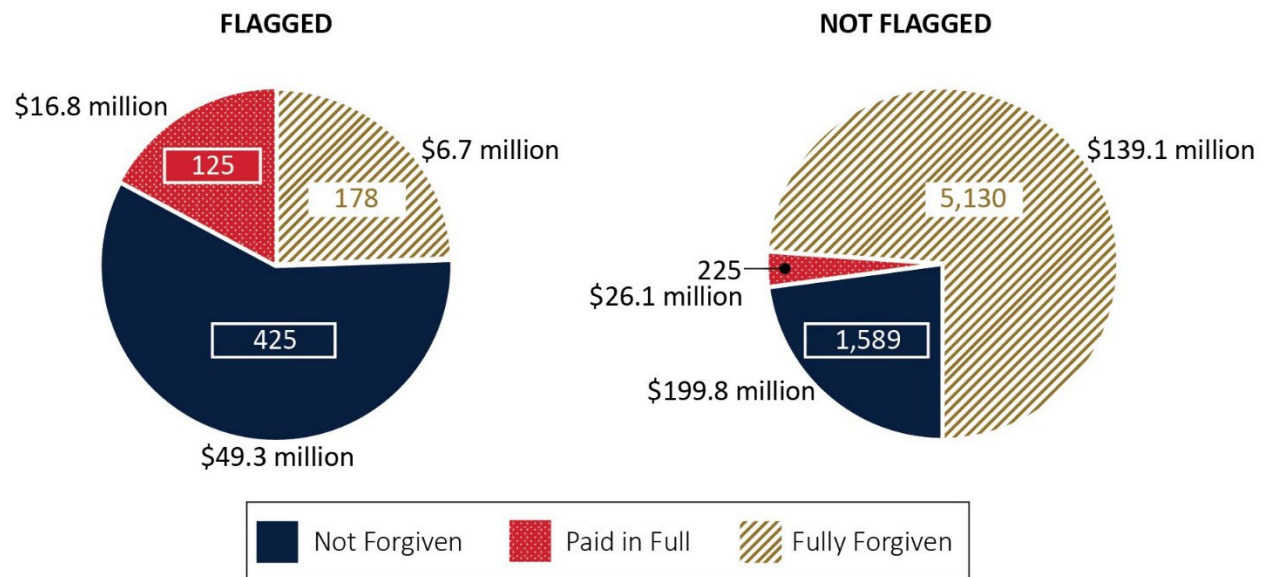
As of March 26, 2024, we found that 728 of these 7,672 loans, totaling \$72.8 million, were flagged with a hold code 50; however, the remaining 6,944 loans, totaling \$365 million, were not flagged. The unflagged loans included 5,130, totaling \$139.1 million, that have been forgiven and 1,589, totaling \$199.8 million, that have not been fully forgiven. The remaining 225 loans, totaling \$26.1 million, were paid in full by the borrowers which, as noted earlier, may indicate that the borrower was ineligible, or loan funds were not used in accordance with requirements. PPP loans could be fully forgiven for eligible borrowers who used loan proceeds as required by law. See [Figure 2](#) for a depiction of the status of loans referred by lenders but not captured by OCRM.

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<sup>6</sup> OIG Report No. 23-09, *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape*, June 27, 2023.

<sup>7</sup> *Fraud Alert: PRAC Identifies \$5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers* report (January 30, 2023).

**Figure 2: Status of Loans Referred by Lenders but not Captured**



Source: OIG analysis of PPP portfolio data.

SBA did not capture all suspicious loans referred by lenders because it did not have sufficient processes and procedures, such as supervisory reviews and a reconciliation process, to ensure OCRM’s summary workbook included all loans referred by lenders as being suspected of fraud or illegal activity. GAO’s *Standards for Internal Control in the Federal Government* recommends that management establish and operate activities to monitor the internal control system and evaluate the results, including regular management and supervisory activities, comparisons, and reconciliations.<sup>8</sup> Further, Office of Management and Budget guidance states that periodic assessments should be integrated as part of management’s continuous monitoring of internal control, which should be ingrained in the agency’s operations.<sup>9</sup>

SBA built a data set containing the suspicious loan numbers based on the loans referred by lenders as part of their outreach project; however, it did not adequately review the information to ensure completeness. While OCRM officials stated they were completing manual reviews of lender responses as resources allowed, they noted there were over 4,000 emails from lenders to review.

By not capturing and flagging the 6,944 loans, totaling \$365 million, referred by lenders as suspected of fraud or illegal activity, there is an increased risk of fraud and financial loss.

<sup>8</sup> GAO-14-704G, *Standards for Internal Control in the Federal Government*, September 2014.

<sup>9</sup> OMB, M-16-17, OMB Circular A-123, *Management’s Responsibility of Internal Control*, July 2016.

Specifically, for the 1,589 loans totaling \$199.8 million that have not been forgiven, borrowers could receive forgiveness without SBA conducting the required targeted reviews. Additionally, the 5,130 loans totaling \$139.1 million that have been fully forgiven may not be identified by SBA for post-forgiveness review, which could identify opportunities to recover improper payments.

## **Conclusion**

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Flagging a suspicious loan triggers a targeted review during both forgiveness and post-forgiveness examinations, providing an opportunity to mitigate improper payment due to fraud. To maximize this opportunity, SBA should immediately flag and review all suspicious loans referred by lenders and establish procedures to ensure all referred loans are captured in OCRM's summary workbook. Implementing our recommendations will enhance program integrity and mitigate fraud risk and financial loss by ensuring only eligible applicants receive program funding and that opportunities are identified to recover fraudulent or ill-gotten funds.

## Recommendations

To enhance SBA's use of hold code 50 to promptly flag PPP loans referred by lenders as being suspected of fraud or illegal activity, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 1:** Immediately flag with a hold code 50 the 45,761 lender-referred loans, totaling \$2.7 billion, suspected of fraud or illegal activity and any other such referred loans.

**Recommendation 2:** Review 17,269 of the 45,761 lender-referred loans, totaling \$1.2 billion, suspected of fraud or illegal activity that have been forgiven and any other such loans to ensure borrowers met eligibility requirements. If not, seek recovery of funds as appropriate.

**Recommendation 3:** Immediately flag with a hold code 50 the 6,944 lender-referred loans, totaling \$365 million, suspected of fraud or illegal activity, but not captured in OCRM's summary workbook.

**Recommendation 4:** Review 5,130 of the 6,944 lender-referred loans, totaling \$139.1 million, suspected of fraud or illegal activity that have been forgiven and any other such loans, to ensure borrowers met eligibility requirements or seek recovery of funds as appropriate.

**Recommendation 5:** Establish sufficient procedures, such as supervisory reviews and a reconciliation process, to ensure all lender-referred loans suspected of fraud or illegal activity are captured in OCRM's summary workbook.

## Evaluation of Agency Response

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SBA management provided formal written comments that are included in their entirety in Appendix 1. Management partially agreed with recommendations 1, 2, 3, and 4 and agreed with recommendation 5.

Management's planned actions do not satisfy the intent of recommendations 1, 2, 3, and 4 and as a result are unresolved. In accordance with our follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendations within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

Management's planned actions for recommendation 5 satisfy the intent of the recommendation and is resolved.

## Summary of Actions Necessary to Close the Recommendations

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

### Recommendation 1

Immediately flag with a hold code 50 the 45,761 lender-referred loans, totaling \$2.7 billion, suspected of fraud or illegal activity and any other such referred loans.

**Status:** Unresolved

SBA management partially agreed with the recommendation, stating that they agree that the status of these loans must be validated. Management stated that the project was interrupted prior to completion due to competing priorities. They also stated that OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans' current status and provide OIG with any additional required actions. SBA plans to complete final action by June 30, 2025.

We maintain our position that SBA should immediately flag with a hold code 50 the 45,761 lender-referred loans, totaling \$2.7 billion, suspected of fraud or illegal activity and any other such referred loans. Although management plans to reach out to the lenders to reconcile the loans' current status and determine additional required actions, this does not preclude management from immediately flagging these suspicious loans with a hold code 50 until the reconciliation is complete.

These loans were referred by lenders who were required to follow applicable Bank Secrecy Act requirements or, a comparable anti-money laundering compliance program, which may include a customer identification program to validate borrower information. These requirements positioned the lenders to reduce the risk of financial fraud and loss. Therefore, not immediately flagging loans referred by lenders for suspicion of fraud or illegal activity fails to mitigate the risk of financial loss and potential that borrowers with reported suspicious PPP loans may obtain other SBA loans.

This recommendation is unresolved. In accordance with our follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendation within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

### Recommendation 2

Review 17,269 of the 45,761 lender-referred loans, totaling \$1.2 billion, suspected of fraud or illegal activity that have been forgiven and any other such loans to ensure borrowers met eligibility requirements. If not, seek recovery of funds as appropriate.

**Status:** Unresolved

SBA management partially agreed with the recommendation, stating again that they agree that the status of the loans must be validated and that the project was interrupted prior to completion due to competing priorities. They also stated that OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans' current status and provide OIG with any additional required actions. SBA plans to complete this action by June 30, 2025.

Management's proposed action to reconcile the list of loans referred by the lenders and determine additional required actions is a prudent initial step. However, management should also ensure it reviews all loans that have been forgiven and are confirmed by the lenders as suspected of fraud or illegal activity to ensure borrowers met eligibility requirements and seek recovery of funds as appropriate.

This recommendation is unresolved because management's proposed actions do not fully address the recommendation. In accordance with our follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendation within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

### **Recommendation 3**

Immediately flag with a hold code 50 the 6,944 lender-referred loans, totaling \$365 million, suspected of fraud or illegal activity, but not captured in OCRM's summary workbook.

**Status:** Unresolved

SBA management partially agreed with the recommendation, stating that they agree that the status of these loans must be validated and that the project was interrupted prior to completion due to competing priorities. They stated that OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans' status and provide OIG with any additional required actions. SBA plans to complete this action by June 30, 2025.

We maintain our position that SBA should immediately flag with a hold code 50 the 6,944 lender-referred loans, totaling \$365 million, suspected of fraud or illegal activity and any other such referred loans to prevent and mitigate fraud risk and financial loss. Although management plans to reach out to the lenders to reconcile the loans' status and determine additional required actions, this does not preclude management from immediately flagging these suspicious loans

with a hold code 50 until the reconciliation is complete. As stated in the report; by not immediately flagging these suspicious loans with hold code 50, SBA may miss opportunities to recover improper payments and mitigate the risk that borrowers with suspicious PPP loans could obtain other SBA loans.

This recommendation is unresolved. In accordance with our follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendation within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

#### **Recommendation 4**

Review 5,130 of the 6,944 lender-referred loans, totaling \$139.1 million, suspected of fraud or illegal activity that have been forgiven and any other such loans, to ensure borrowers met eligibility requirements or seek recovery of funds as appropriate.

**Status:** Unresolved

As with the prior recommendations, SBA management partially agreed with this recommendation, stating that they agree that the status of the loans must be validated, and that OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans' current status and provide OIG with any additional required actions. SBA plans to complete this action by June 30, 2025.

Again, management's proposed action to reconcile the list of loans referred by the lenders and determine additional required actions is a prudent initial step. However, management should also ensure it reviews all loans that have been forgiven and are confirmed by the lenders as suspected of fraud or illegal activity to ensure borrowers met eligibility requirements, and for those that did not, seek recovery of funds as appropriate.

This recommendation is unresolved because management's proposed actions do not fully address the recommendation. In accordance with our follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendation within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

#### **Recommendation 5**

Establish sufficient procedures, such as supervisory reviews and a reconciliation process, to ensure all lender-referred loans suspected of fraud or illegal activity are captured in OCRM's summary workbook.



**Status:** Resolved

SBA management agreed with the recommendation, stating they will ensure any future stimulus loan program will have a process in place to report all eligible loans as required. SBA plans to complete final action by August 31, 2025.

Management's proposed action generally satisfies the intent of this recommendation. Management plans to ensure it has a process in place to report all eligible loans as required for future stimulus loan programs. However, management should also establish sufficient procedures to ensure all lender-referred PPP loans suspected of fraud or illegal activity, and loans identified in this report, are captured in OCRM's summary workbook.

This recommendation can be closed when SBA provides evidence that it established sufficient procedures to ensure all lender-referred loans suspected of fraud or illegal activity are captured in OCRM's summary workbook.

## Scope and Methodology

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This management advisory presents the results of our review to assess SBA's use of hold codes for potentially fraudulent PPP loans referred by lenders. To answer our objective, we reviewed policies, procedures, and guidance pertaining to lender referrals of potentially fraudulent PPP loans. Our scope of work covered PPP loans referred by lenders as part of OCRM's special project as of March 1, 2024.

We interviewed SBA officials from various offices in the Office of Capital Access, including OCRM, the Office of Financial Program Operations, and the Office of Performance and Systems Management to gain an understanding of the process for lenders to refer PPP loans suspected of fraud or illegal activity and each office's role in handling the referred loans and usage of hold code 50.

Further, we analyzed OCRM's summary workbook to determine the number of loans referred by lenders (and their amounts) as suspected of being fraudulent or illegal to determine if the loans were flagged with a hold code 50. We also reconciled PPP loans referred by a sample of 13 individual PPP lenders to OCRM's summary workbook of lender referrals to determine if the workbook contained all of the referred suspicious loans.

This management advisory was prepared in alignment with OIG quality control standards and the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspection and Evaluation. These 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 the evidence provides a reasonable basis for our conclusions based on our objective.

## **Use of Computer-Processed Data**

We relied on data from SBA's electronic loan servicing system (E-Tran) and from OCRM to conduct our inspection. We performed limited testing on data extracts as of March 26, 2024, and verified information in the data extracts to SBA's Capital Access Financial System and SBA's Paycheck Protection Platform. We also performed data reliability testing on OCRM's summary workbook by obtaining the list of loans sent to OCRM by lenders and tested whether those loans were included in OCRM's summary workbook. Further, we reviewed data reliability assessments from a prior SBA-OIG inspection that used E-Tran data.

We did not validate the accuracy of the data extracts to source documents because doing so would involve reviewing lender loan files and would be outside the scope of our review. However, we believe the data used in this report are sufficiently reliable to support our report conclusions.

# **Appendix 1: Agency Response**

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U.S. Small Business Administration  
Response to Draft Report



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

**To:** Hannibal “Mike” Ware  
Inspector General  
U.S. Small Business Administration

**From:** Susan Streich, Director  
Office of Credit Risk Management  
Office of Capital Access

**SUSAN STREICH**

Digitally signed by SUSAN  
STREICH  
Date: 2024.12.09 09:47:31  
-05'00'

**Date:** December 9, 2024

**Subject:** Response to OIG Draft Report – SBA’s Use of Hold Codes for Potentially  
Fraudulent PPP Loans Referred by Lenders (Project 24009)

We appreciate the role the Office of Inspector General (OIG) plays in working with management in ensuring that our programs are effectively managed, and for the feedback provided in this draft report. We offer the following comments to the draft and Recommendations:

**Recommendation 1** – Immediately flag with a hold code 50 the 45,671 lender-referred loans, totaling \$2.7 billion, suspected of fraud or illegal activity and any other such referred loans.

**SBA Response:** SBA partially agrees with this recommendation. SBA agrees that the status of these loans must be validated. The project was interrupted prior to completion due to competing priorities. OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans’ current status and provide OIG with any additional required actions.

**Final Action Target Date:** 6/30/2025

**Recommendation 2**– Review 17,269 of the 45,671 lender-referred loans, totaling \$1.2 billion, suspected of fraud or illegal activity that have been forgiven and any other such loans to ensure borrowers met eligibility requirements. If not, seek recovery of funds as appropriate.

**SBA Response:** SBA partially agrees with this recommendation. SBA agrees that the status of these loans must be validated. The project was interrupted prior to completion due to competing priorities. OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans’ current status and provide OIG with any additional required actions.

**Final Action Target Date:** 6/30/2025

**Recommendation 3** – Immediately flag with a hold code 50 the 6,944 lender-referred loans, totaling \$365 million, suspected of fraud or illegal activity, but not captured in OCRM’s summary workbook.

**SBA Response:** SBA partially agrees with this recommendation. SBA agrees that the status of these loans must be validated. The project was interrupted prior to completion due to competing priorities. OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans’ status and provide OIG with any additional required actions.

**Final Action Target Date:** 6/30/2025

**Recommendation 4** – Review 5,130 of the 6,944 lender-referred loans, totaling \$139.1 million, suspected of fraud or illegal activity that have been forgiven and any other such loans, to ensure borrowers met eligibility requirements or seek recovery of funds as appropriate.

**SBA Response:** SBA partially agrees with this recommendation. SBA agrees that the status of these loans must be validated. The project was interrupted prior to completion due to competing priorities. OCRM will reach out to the lenders for this portfolio of loans to reconcile the initial report with the loans’ current status and provide OIG with any additional required actions.

**Final Action Target Date:** 6/30/2025

**Recommendation 5** – Establish sufficient procedures, such as supervisory reviews and a reconciliation process, to ensure all lender-referred loans suspected of fraud or illegal activity are captured in OCRM’s summary workbook.

**SBA Response:** SBA agrees with this recommendation. SBA will ensure any future stimulus loan program will have a process in place to report all eligible loans as required.

**Final Action Target Date:** 8/31/2025