



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

Direct Loan Program Survey Results

Report Number: SIGPR-A-21-003
September 23, 2021



Introduction

The Special Inspector General for Pandemic Recovery (SIGPR) was established by Section 4018 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Under the CARES Act, SIGPR has the duty to conduct, supervise, and coordinate audits and investigations of the making, purchase, management, and sale of loans, loan guarantees, and other investments by the Secretary of the Treasury under any program established by the Secretary under Division A of the CARES Act, as well as the management by the Secretary of any program established under Division A of the CARES Act. SIGPR also has the duties, responsibilities, powers, and authorities granted inspectors general under the Inspector General Act of 1978, including broad subpoena authority.

The role and mission of SIGPR is to safeguard the people's tax dollars appropriated by Congress through the CARES Act. SIGPR strives to ensure that the American taxpayer gets the best return on investment by efficiently rooting out fraud, waste, and abuse. In carrying out its mission, SIGPR's goal is to treat everyone with respect, to operate with the utmost integrity, and to be fair, objective, and independent.

Background

Section 4003 of the CARES Act authorizes the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred as a result of the coronavirus pandemic. Sections 4003(b)(1)-(3), hereinafter referred to as the Direct Loan Program (DLP), provided \$46 billion to help stabilize air carriers and related businesses and businesses critical to maintaining national security. The DLP consists of two programs – the Air Carrier Loan Program (ALP) and the National Security Loan Program (NSLP).

The breakdown of available funding was as follows:

- 1) Up to \$25 billion for passenger air carriers; businesses certified to perform inspection, repair, replace or overhaul services; and ticket agents;
- 2) Up to \$4 billion for cargo air carriers; and
- 3) Up to \$17 billion for businesses critical to maintaining national security.

Treasury entered into 35 direct loans with qualified borrowers. Although the loans and loan guarantees totaled \$21.9 billion, only \$2.7 billion was disbursed. In addition to the 35 approved applicants, another 220 companies applied for direct loans but were either rejected by Treasury or withdrew their applications.

Companies were rejected by Treasury for various reasons including credit worthiness, insufficient collateral, or late or incomplete applications. Among the companies that voluntarily withdrew from consideration, some received funding from another CARES Act program.

Treasury developed underwriting, credit analysis, and approval processes to provide urgent assistance to air carriers and other eligible businesses through the ALP. The NSLP was modeled after the ALP with a few differences in its underwriting process to address the needs of businesses critical to maintaining national security. NSLP

applicants were required to be designated as a “business critical to maintaining national security.” To be considered for a direct loan through the NSLP, a business had to demonstrate, at the time of the business’s application, that it was:

- Performing under a “DX” priority rated contract or order under the Defense Priorities and Allocations System regulations;¹ or
- Operating under a valid top secret facility security clearance under the National Industrial Security Program regulations.²

If an applicant to the NSLP did not meet these eligibility criteria, the applicant business could still be considered for a direct loan if the Secretary of the Treasury determined that the applicant business was critical to maintaining national security. The Secretary’s decision would be based on a recommendation and certification from the Secretary of Defense or the Director of National Intelligence.³ Several NSLP applicants were rejected due to a lack of documentation verifying their status as a business critical to maintaining national security.

Purpose

SIGPR is currently examining the Department of Treasury’s administration of the DLP. As part of our examination, we surveyed both approved and non-approved loan applicants to gain an understanding of how all applicants viewed the program. The purpose of this report is to provide the results of SIGPR’s survey of approved and non-approved DLP applicants.

Methodology

SIGPR sent surveys on March 25, 2021, to all 35 DLP approved applicants. Surveys were sent via first-class mail and email to the addresses of record provided by each business in their respective loan agreement maintained by Treasury. SIGPR coordinated with Treasury to ensure that it had the most current contact information for all DLP participants. The DLP participants were informed that their responses were required under the terms of their loan agreements with Treasury.⁴ SIGPR received responses from all DLP participants except one business that had already repaid its loan balance and was acquired by another firm.

A second survey, designed to solicit input on the experiences of non-approved applicants, was sent on July 14, 2021, to the 220 DLP applicants that did not obtain a direct loan. The survey was sent electronically using commercially available survey software. Responses were voluntary and respondents were informed that the survey would close 30 days from the date it was sent. SIGPR received 56 responses (25.5 percent).

¹ 15 C.F.R. 700

² 32 C.F.R. 2004

³ DoD OIG is currently examining DoD’s process of certifying NSLP applicants in conjunction with SIGPR.

⁴ Each DLP participant’s loan agreement contains an access to records clause, Treasury Access §10.07.

Multiple choice answers were analyzed statistically. Short Answer responses were analyzed for overarching trends and keyword phrases by members of the audit team. In some instances, respondents' answers were not included in our results because we determined that those answers did not directly respond to the question being asked or were too specific, too infrequent in occurrence, or not actionable. In other instances, infrequent responses were included when we determined they had the potential to be representative of a larger trend. A selection of that analysis, represented in graph form, can be found in Appendices A and B.

Results

In addition to summarizing the survey results in this publication, we plan to conduct further analysis, as warranted, with Treasury officials and both approved and non-approved applicants. These survey results will also be included as part of SIGPR's overall report of our examination of the Direct Loan Program.

We identified trends among approved DLP applicants, trends among non-approved DLP applicants, and trends across both groups. **Table 1** summarizes respondent trends for selected questions relevant to DLP applicants that were approved and obtained a direct loan. Response data for additional questions to SIGPR's *Direct Loan Program Survey* can be found in **Appendix A**.

Table 1 - Selected Responses from Approved Applicants

Question	Summary of Trends
Please describe the nature of any disputes with Treasury over any aspects of the program.	Most answers mentioned the treatment of collateral.
Were the terms offered by Treasury equitable with similarly situated borrowers?	Majority of applicants stated that they believed Treasury's terms were fair and equal.
What was the most significant "covered loss" experienced by your company, and why was it significant?	Most respondents stated revenue/sales decline.
If credit was not otherwise available at the time of the loan, please explain why.	The two most common responses were that they were denied credit or higher interest rates were offered.
Describe if any loan conditions severely impacted business operations?	The two most common responses were maintaining employment requirements and that the loan had a positive impact on operations.
Did any term or condition prompt your company to consider withdrawing from the program?	The most common response was related to collateral requirements.

Question	Summary of Trends
What would make a similar program better in the future?	The most common response was to tailor the program to specific business types.

Source: SIGPR Office of Audits analysis of respondent answers to SIGPR’s *Direct Loan Program Survey*.

Table 2 summarizes respondent trends for selected questions relevant to DLP applicants that were either rejected or withdrew their applications. Response data for additional questions to SIGPR’s *DLP Non-Approved Applicant Survey* can be found in **Appendix B**.

Table 2 - Selected Responses from Non-Approved Applicants

Question	Summary of Trends
How did you initially hear about Treasury's Direct Loan Program?	The two most common responses were a third party or the news.
What changes in the way information was communicated do you recommend?	The most common response was more and timely communication.
What modifications do you recommend to enable greater participation?	Respondents recommended improved communication, greater flexibility, and expanded eligibility.
Please describe why your application was withdrawn or rejected from the Direct Loan Program?	Most respondents stated that they did not know why their application was rejected.

Source: SIGPR Office of Audits analysis of respondent answers to SIGPR’s *DLP Non-Approved Applicant Survey*.

Some questions related to each applicant’s experience with the DLP were the same across both surveys. Respondents’ answers to those questions, in general, differed based on whether the respondent was eventually approved for a direct loan or not approved. **See Table 3**.

Table 3 - Comparison of Responses to Similar Questions for Approved and Non-Approved DLP Applicants

Question	Approved Applicants	Non-Approved Applicants
Please rate your experience with the Direct Loan Program.	24 of 34 (71 percent) provided positive responses. ^a	21 of 56 (38 percent) provided positive responses.
Was the guidance that Treasury provided on program requirements clear?	23 of 34 (68 percent) responded that the guidance was clear.	21 of 56 (38 percent) responded that the guidance was clear.
Did your company engage in lobbying activities related to the Direct Loan Program?	7 of 34 (18 percent) responded yes.	2 of 56 (4 percent) responded yes.
Did your company apply for and/or receive any other CARES Act funding?	26 of 34 (76 percent) responded yes.	47 of 56 (84 percent) responded yes

^a Positive responses include: acceptable, somewhat user friendly, and extremely easy and user friendly.

Source: SIGPR Office of Audits analysis of respondent answers to SIGPR’s *Direct Loan Program Survey* and *DLP Non-Approved Applicant Survey*.

Audit Team

The surveys and publication were conducted by the individuals listed below:

Michael Sinclair	Audit Manager
Reynaldo Gonzales	Auditor-In-Charge
Renata Malionek	Management Analyst

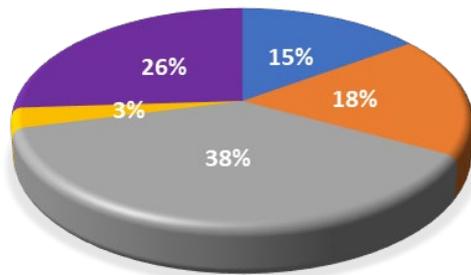
Appendix A – Responses from Approved Applicants

The charts in Appendix A summarize respondents' answers to questions in SIGPR's *Direct Loan Program Survey* sent March 25, 2021. The survey was sent to all 35 DLP participants. SIGPR received 34 responses. The number of responses to each question in this appendix is denoted by *n*. Please note that column chart totals may not add up to 34 because those associated questions may not have been applicable to some of the respondents. Furthermore, a column chart's total may not equal its associated question's number of respondents because respondents may have: (1) provided more than one relevant answer in their response or (2) provided a response that the audit team did not consider responsive to the question.

Experience

Please rate your company's experience with the Direct Loan Program.

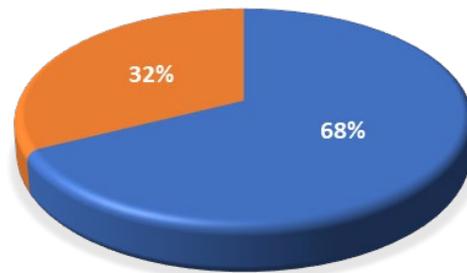
n = 34



■ Extremely Easy and User Friendly
■ Somewhat User Friendly
■ Acceptable
■ Harder Than Expected
■ Extremely Difficult and Cumbersome

Was the guidance that the U.S. Department of the Treasury (Treasury) provided on program requirements clear?

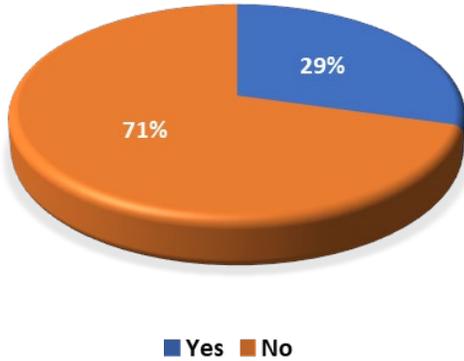
n = 34



■ Yes ■ No

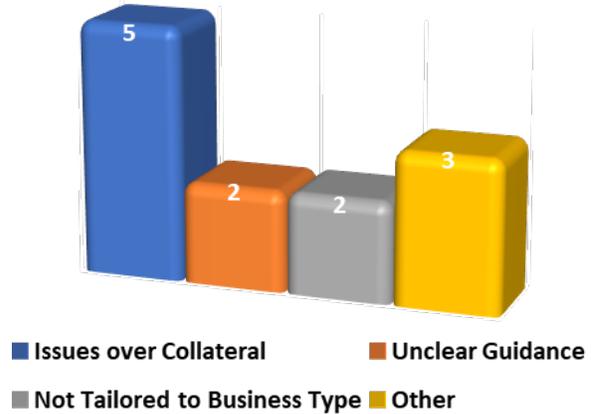
Did your company experience any disputes with Treasury about any aspect of the Direct Loan Program?

n = 34



Among respondents stating that their company experienced a dispute, we identified the following trends:

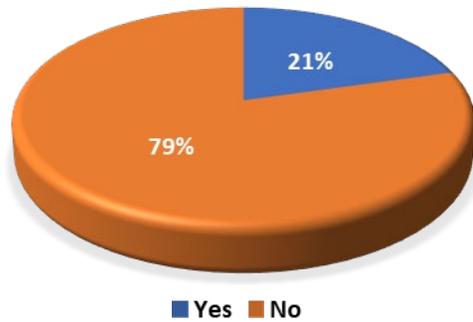
n = 11



Lobbying Activities

Did your company hire or retain anyone or any firms to engage in “lobbying activities” (as defined by the Lobbying Disclosure Act of 1995) related in any way to the Direct Loan Program, regardless of whether that person or firm was required to disclose those activities under the Lobbying Disclosure Act of 1995?

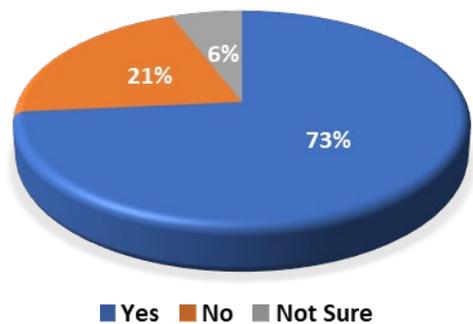
n = 34



Loan Terms

Were the terms Treasury offered your company (including interest rate, collateral, and taxpayer protections) equitable with those offered to similarly situated borrowers?

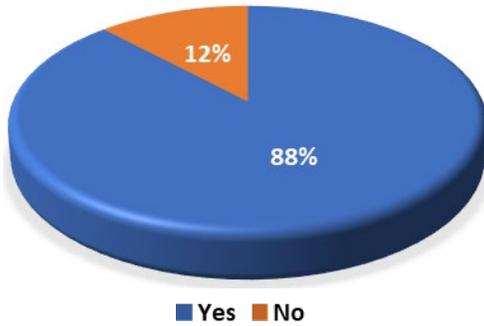
n = 34



Covered Losses

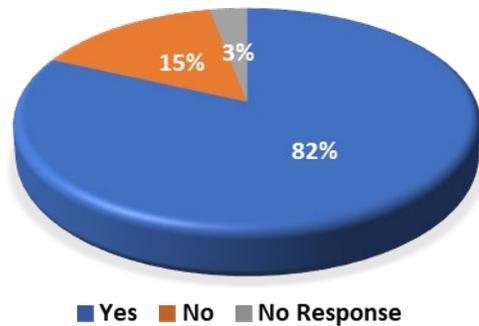
Direct loans were limited to those companies either experiencing or anticipating "covered losses." Did your company predict any "covered losses" at the time of application?

$n = 34$



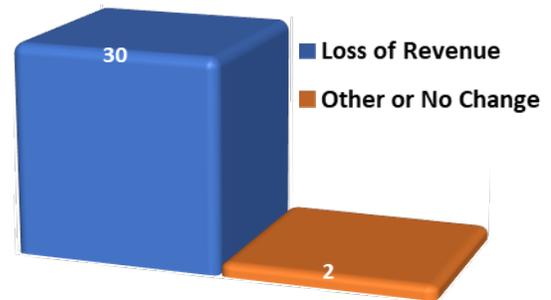
To the extent your company predicted "covered losses" at the time of application, did those predictions come true?

$n = 34$



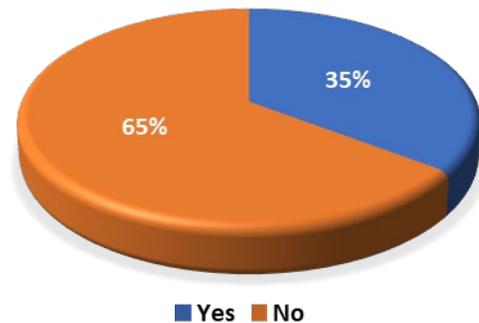
What was the most significant "covered loss" your company faced and why was it significant?

$n = 32$



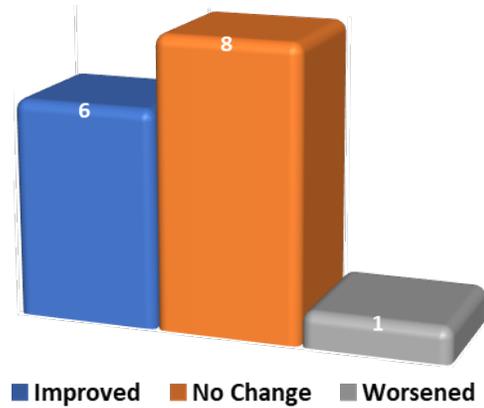
Has your company's financial need for a Treasury direct loan changed since the loan application was submitted?

$n = 34$



Please explain how your company's financial needs have changed.

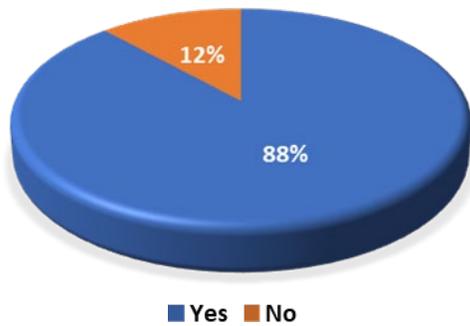
n = 17



Permissible Uses for Loan Proceeds

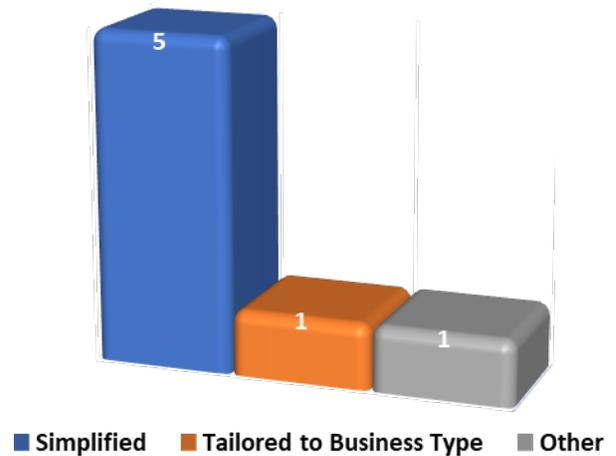
Was the guidance that Treasury provided on permissible uses of direct loans clear?

n = 34



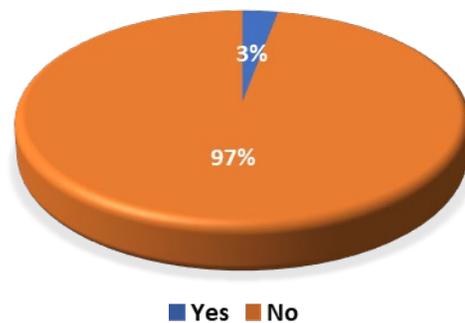
Please explain how the guidance might be clearer.

n = 8



Has your company used any of the direct loan proceeds for non-operating expenses?

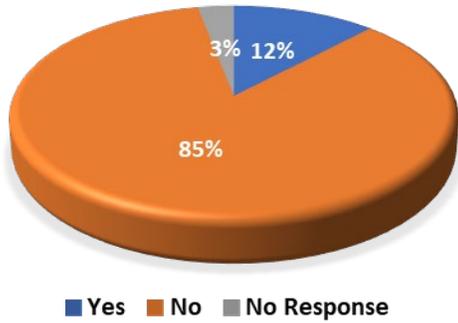
n = 34



Credit Availability

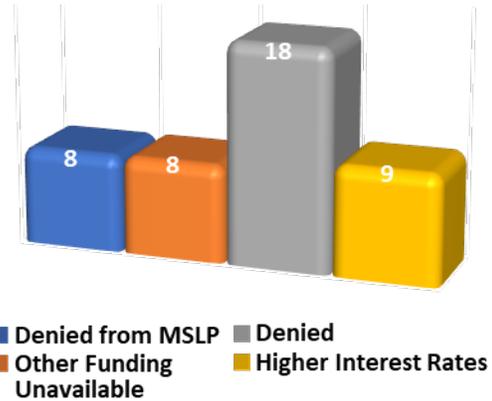
Was credit reasonably available to your company at the time your company signed the agreement with Treasury to borrow under the Direct Loan Program?

n = 34



Please explain how credit was not reasonably available.

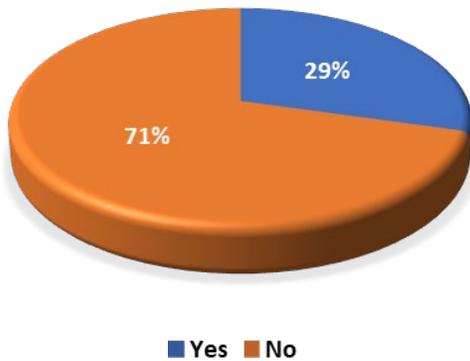
n = 31



Program Conditions

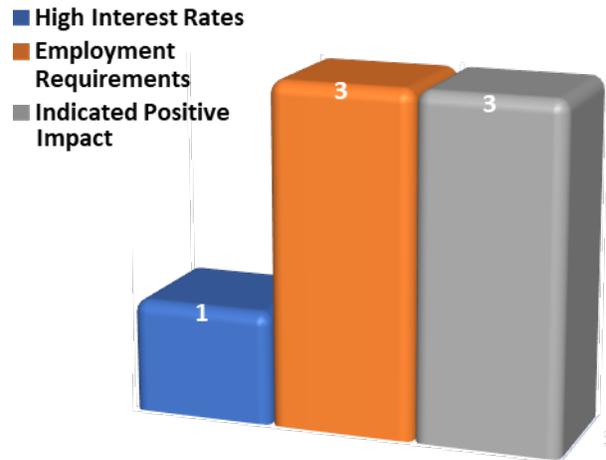
Did any of the loan terms and conditions significantly impact your business operations?

n = 34



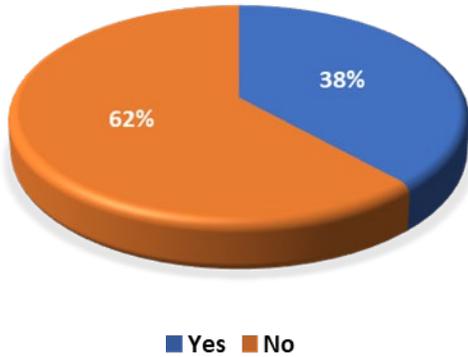
Which term(s) and/or condition(s) impacted your company and how?

n = 12



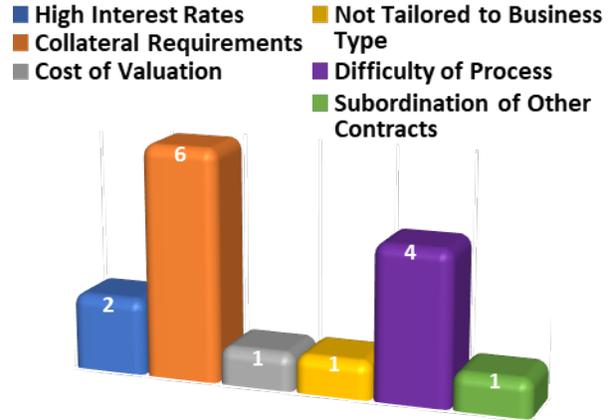
Did any term or condition during the application process ever become an obstacle that prompted your company to seriously consider withdrawing from the loan application process?

n = 34



Which term(s) or condition(s) became an obstacle and why?

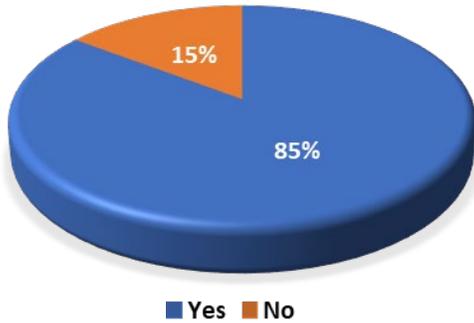
n = 14



Fund Tracing

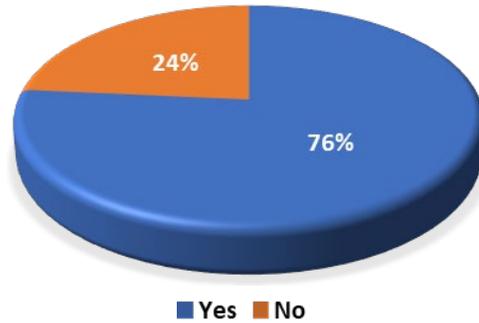
Has your company implemented, or does it plan to implement, a system for tracing how Direct Loan Program proceeds are allocated and spent?

n = 34



Does your company's system allow for separately tracing the funds received under each specific CARES Act program?

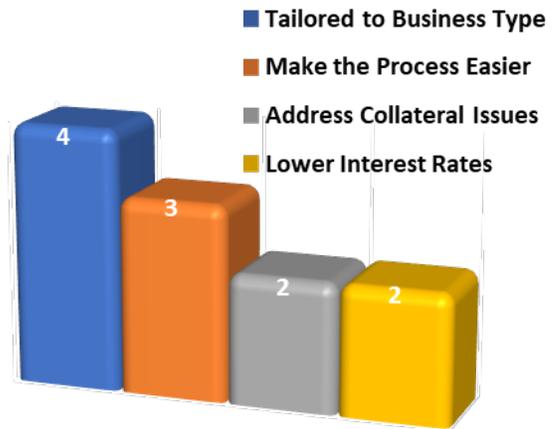
n = 34



Recommendations

If the Treasury Department was to offer another program similar to the Direct Loan Program, what improvements or suggestions could make the program more appealing?

$n = 16$



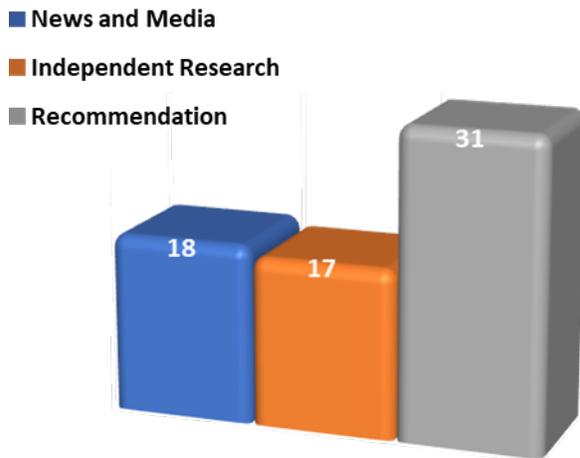
Appendix B – Responses from Non-Approved Applicants

The charts in Appendix B summarize respondents' answers to questions in SIGPR's *DLP Non-Approved Applicant Survey* sent July 14, 2021. The survey was sent to 220 DLP applicants that were either rejected or withdrew their application. SIGPR received 56 responses. The number of responses to each question in this appendix is denoted by *n*. Please note that column chart totals may not add up to 56 because those associated questions may not have been applicable to some of the respondents, or a respondent may have elected to not answer a particular question. Furthermore, a column chart's total may not equal its associated question's number of respondents because respondents may have: (1) provided more than one relevant answer in their response or (2) provided a response that the audit team did not consider responsive to the question.

Experience

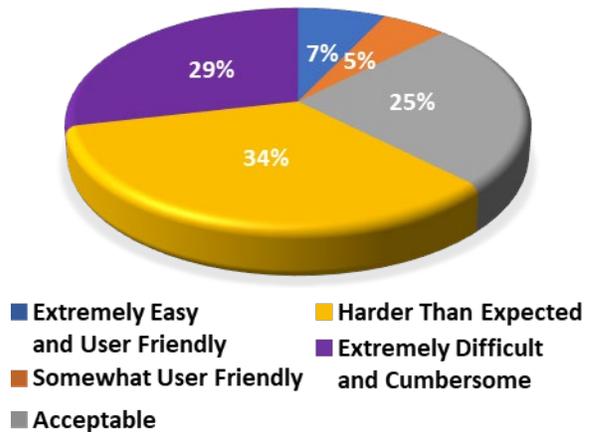
How did you initially hear about Treasury's Direct Loan Program?

n = 56



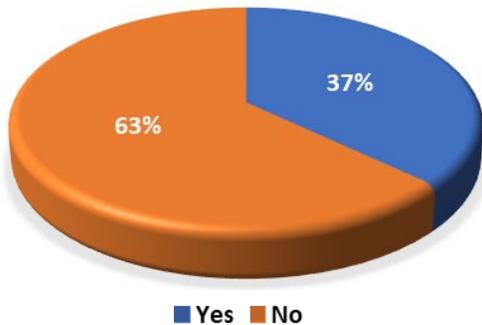
Please rate your overall experience with the Direct Loan Program.

n = 56



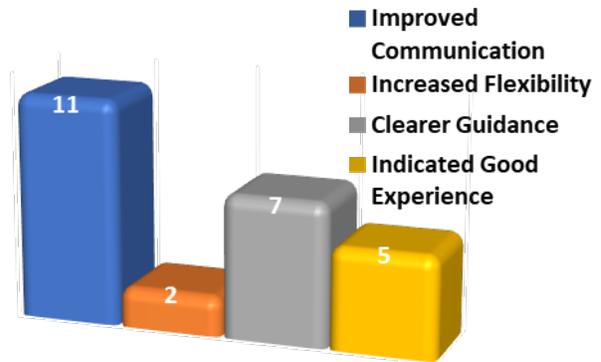
Was the guidance that Treasury provided on program requirements clear?

n = 56



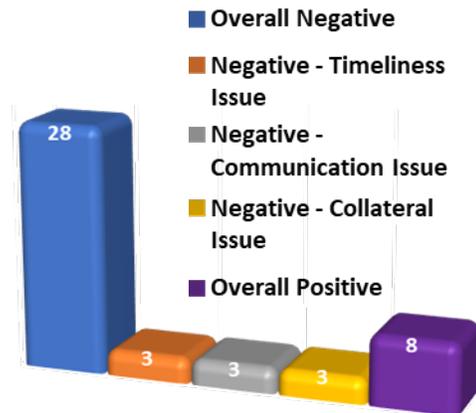
What changes in the way information is communicated do you recommend, to deliver greater clarity and guidance?

n = 41



Please describe your company's experience with the Direct Loan Program.

n = 56



Lobbying Activities

Did your company hire or retain anyone or any firms to engage in "lobbying activities" (as defined by the Lobbying Disclosure Act of 1995) related in any way to the Direct Loan Program, regardless of whether that person or firm was required to disclose those activities under the Lobbying Disclosure Act of 1995?

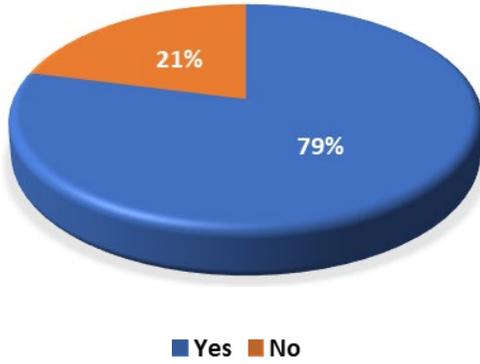
n = 56



Program Requirements

Do you believe that Treasury's program requirements limited borrower participation?

$n = 56$



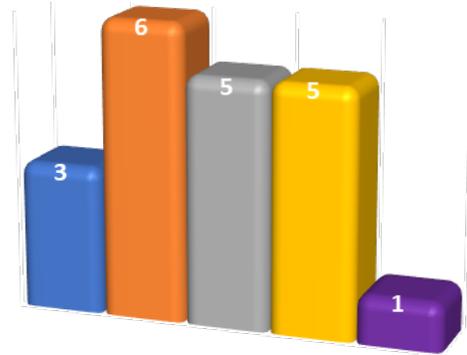
Please describe why your company's direct loan application was withdrawn or rejected from the Direct Loan Program.

$n = 54$

What modifications do you recommend to enable greater participation in the future?

$n = 48$

■ Better Terms and Rates ■ More Flexibility
■ Improved Communication ■ Expanded Eligibility
■ Tailored to Business Type



Other CARES Act Programs

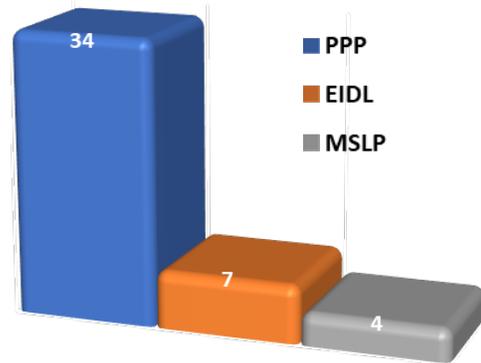
Did your company apply to any other program(s) established by the CARES Act (for example, Main Street Lending Program or Paycheck Protection Program)?

n = 56



Please identify the program(s) and respective loan amount(s).

n = 52



Recommendations

What other recommendations do you suggest, to improve similar direct lending programs in the future?

n = 47



Do you have any other comments or concerns related to the Direct Loan Program?

n = 44

