



OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR
PANDEMIC RECOVERY

Quarterly Report to the United States Congress

April to June 2021





MESSAGE FROM THE SPECIAL INSPECTOR GENERAL FOR PANDEMIC RECOVERY

The Coronavirus Aid, Relief and Economic Security (CARES) Act was an unprecedented infusion of cash into the domestic economy. Sadly, that investment has been prey to unprecedented levels of fraud and other crime. Already the Justice Department has charged nearly 500 persons with criminal offenses arising out of fraud schemes involving the pandemic. To that end, SIGPR is proudly partnering with law enforcement organizations, task forces, and United States Attorneys' Offices from coast to coast to ensure that those who sought to profit illegally from the COVID-19 pandemic are brought to justice.

Last month was my first anniversary as Special Inspector General for Pandemic Recovery (SIGPR). When we published our first quarterly report in September 2020, we had an initial staff of 13 persons who were recruiting additional staff, developing audit protocols, and working on three complaints under review. I am now pleased to report that SIGPR is operational. We are now staffed by 46 full-time public servants working on two major audits of CARES Act programs and some 20 investigations, 16 of which SIGPR developed internally from our proactive efforts.

This growth has allowed us to begin or expand several important projects. We are particularly proud to report the launch of a SIGPR-initiated pilot project that will bring together several federal agencies to investigate significant pandemic relief fraud using, among other things, Bank Secrecy Act information. This pilot is one of several proactive efforts to further the “multiple-dipper” initiative that SIGPR began last year and highlighted in our very first report.¹ Our audit work now includes Treasury's Direct Loan

¹ See Special Inspector General for Pandemic Recovery, [Initial Report to Congress](#) 49–50 (Aug. 3, 2020).

Program, as well as the lenders and recipients of the Federal Reserve facility that provided Treasury-backed liquidity to the main street market.

We have built in-house expertise on CARES Act programs and their legal requirements. Additionally, we expanded our audit and investigative programs through the use of state-of-the-art data analytics, which includes a functional and interactive informational dataset of nearly 70 million rows of data covering billions of dollars of CARES Act funding.

To ensure this important work can continue, SIGPR respectfully requests that Congress grant SIGPR a place in the annual federal budget. The CARES Act gave SIGPR \$25 million to carry out its duties for a five-year term. That lump sum appropriation, about \$5 million per year, is not adequate to sustain our important investigative and audit work for the remainder of SIGPR's term. We are undertaking important investigations and critical audits. Let's not begin to wind down now. Consistent with the President's budget proposal, we ask that Congress include SIGPR in the annual budget.

I am grateful for my dedicated and growing team at SIGPR, as well as for the invaluable public service by them and our partners in the inspector general and law enforcement communities.

Respectfully,



Brian D. Miller
July 30, 2021

HIGHLIGHTS

THIS QUARTER SIGPR:

- Worked on 20 preliminary inquiries and full investigations, 16 of which were developed by SIGPR's own proactive efforts;
- Received and vetted 620 hotline complaints, referring 201 to other agencies; and
- Announced an audit of the Main Street Lending Program while continuing an audit of the Direct Loan Program.

TO ENHANCE PANDEMIC OVERSIGHT, SIGPR PROPOSES THAT CONGRESS:

- Grant SIGPR oversight jurisdiction over all pandemic-related Treasury programs; and
- In future emergency lending programs such as the Main Street Lending Program, in which the Federal Reserve provides liquidity to the financial system backed by public funds from Treasury, ensure that inspectors general of jurisdiction have a right of access established by law or contract to the relevant records of borrowers and private lenders.

PROFILE

ABOUT

SIGPR is an independent organization within the U.S. Department of the Treasury whose mission is to promote the economy, efficiency, effectiveness, and integrity of CARES Act funds and programs. SIGPR was established by Section 4018 of the CARES Act with duties, responsibilities, and authority under the Inspector General Act of 1978.

STAFFING AND BUDGET

Congress appropriated \$25 million to SIGPR for the entirety of its five-year term, or about \$5 million per year. SIGPR requested \$25 million in its Fiscal Year 2022 budget request, which is included in the President's Budget. The receipt of additional funding is critical to SIGPR's success. Without it, SIGPR will not have the ability to continue its oversight mission. It is imperative that SIGPR receive additional funding to continue its work through its sunset date of March 27, 2025.

As of June 30, SIGPR had 43 full-time employees on board.

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SECTION 1

SIGPR OVERSIGHT

SIGPR employs proactive efforts to prevent, detect, and investigate fraud, waste, and abuse involving CARES Act funds and programs within SIGPR's jurisdiction.

Below is a summary of SIGPR's activities during the reporting period:

- The Office of Audits has launched an audit of the Main Street Lending Program and continued its audit of the Direct Loan Program;
- The Office of Investigations
 - worked on 20 preliminary inquiries and full investigations, 16 of which were developed by SIGPR's own proactive efforts;
 - received and vetted 620 hotline tips, and opened seven new investigations while continuing work on 12 others; and
- SIGPR continues to build partnerships and has initiated a pilot project with other agencies.

Audits

The Office of Audits conducts audits and evaluations of loans, loan guarantees, and other investments made by the U.S. Department of the Treasury under programs within SIGPR's jurisdiction.²

Engagements

During this quarter, the Office of Audits has worked on the following projects:

Audit of the Direct Loan Program. The Office of Audits is continuing its work on the Direct Loan Program, which is a CARES Act program that authorized Treasury to provide loans, loan guarantees, and other investments to passenger air carriers and related businesses, cargo air carriers, and businesses critical to maintaining national security. On May 6, 2021, the Office of Audits held an entrance conference with Treasury officials.

Since the entrance conference, the audit team has reviewed Treasury's underwriting guidance for the Direct Loan Program and other applicable program policies and procedures. The audit team obtained relevant documents to better understand Treasury's evaluation and decision-making processes to approve loan applications. The audit team contacted all 35 businesses that received a direct loan to obtain feedback on the program's effectiveness from the borrowers' perspective. The audit team also evaluated Treasury's monitoring processes to ensure that outstanding loans continue to

² See CARES Act § 4018(c)(1).

be performing and that Treasury is taking all necessary measures to protect taxpayer interests.

The audit team developed a survey for businesses whose loan applications were either withdrawn or rejected from the program. The audit team plans to distribute this survey to 220 unsuccessful loan applicants. The results of this survey should provide insight to develop recommendations to improve future program effectiveness.

The Office of Audits is partnering with the Department of Defense Office of Inspector General (DoD OIG) in a review of national security designations for businesses. This joint effort will evaluate how the Department of Defense made the determination that businesses were critical to maintaining national security for loans under section 4003 of the CARES Act. An entrance conference was held on May 25, 2021, and included Department of Defense personnel, the DoD OIG audit team, and SIGPR's audit team. Currently, the DoD OIG audit team is awaiting a response to its initial request for information.

Audit of the Main Street Lending Program. The Federal Reserve established the Main Street Lending Program (MSLP) to support lending to small and mid-sized businesses and nonprofit organizations, with Treasury investing more than \$16.5 billion in MSLP loans. The Office of Audits had an entrance conference with Treasury officials on July 1, 2021, to discuss audit objectives and establish points of contact for an audit of the MSLP. The office has also requested an entrance conference with Federal Reserve officials.

The audit team has prepared a survey to distribute to MSLP lenders and borrowers. Pending access to lender and borrower contact information, the Office of Audits plans to send the survey to the program's 319 lenders and 1,830 borrowers. Responses will be used to assess (1) the overall ease and efficiency that lenders and borrowers experienced with the administration of the MSLP and (2) compliance with the requirements set forth in the CARES Act. The Office of Audits expects to receive feedback that will allow it to reach sound conclusions and guide future audit work.

Implementation Review of SIGPR Access. The Office of Audits conducted an implementation review to determine whether Treasury took corrective actions to address a SIGPR recommendation from July 2020. On July 28, 2020, the Office of Audits recommended that Treasury expressly include SIGPR in the list of entities entitled to "timely and unrestricted access" to information from the borrower in all loan agreements under section 4003 of the CARES Act. On

July 30, 2020, Treasury agreed to implement the change in future loan agreements.

In the implementation review, the Office of Audits reviewed the subsequent loan agreements under CARES Act sections 4003(b)(1)–(3) and found that Treasury had taken appropriate corrective action to address the recommendation. In the 34 loan agreements signed after Treasury’s July 30, 2020 response to SIGPR, Treasury expressly included SIGPR in the loan document section titled “Treasury Access.” The Office of Audits [communicated the results of the implementation review](#) to Treasury on May 19, 2021, and determined that no further action was necessary.

Termination of Audit on Treasury Funding for Postal Service. As a result of the Department of Justice (DOJ) Office of Legal Counsel opinion determining that the CARES Act limited SIGPR’s jurisdiction, the Office of Audits terminated an audit concerning Treasury funding for the Postal Service. As part of the CARES Act, later amended by the Consolidated Appropriations Act, 2021, the Postal Service has been authorized to receive up to \$10 billion in funding from Treasury for operating expenses. The purpose of this audit was to determine if the Postal Service has a system in place to identify COVID-19 related expenses and to track its use of the additional funding in compliance with the CARES Act requirements. On May 4, 2021, the Office of Audits sent a letter to the Postal Service about the audit termination.

Closing Evaluation of the Coronavirus Relief Fund. The CARES Act established the \$150 billion Coronavirus Relief Fund (CRF) to assist state, local, and tribal governments with necessary expenditures incurred due to the COVID-19 public health emergency. In December 2020, SIGPR sought to open an evaluation into the CRF to identify and assess the activity associated with the CRF, determine vulnerabilities based on risk-based analysis, and determine specific areas that warrant audit work. As a result of the Office of Legal Counsel opinion determining that the CARES Act limited SIGPR’s jurisdiction, further work in this area was discontinued, and all information gathered for this effort was transferred to the Department of Treasury Office of Inspector General.

Data Analysis

The Office of Audits continues to work on data analytics concerning programs within SIGPR’s oversight jurisdiction. In its analytical work, the Office of Audits:

- identifies and creates applicable datasets;

- maintains a growing data library to remain in sync with changing information;
- creates interactive dashboards and visualizations to assist users in determining program areas for audits and evaluations; and
- participates with various inter-governmental agencies, committees, and third-party vendors to stay informed about emerging analytical tools, techniques, and methodologies.

The current supporting informational datasets, as compiled and developed by the Office of Audits, has expanded to nearly 70 million rows of data, covering billions of dollars in CARES Act funding. The Office of Audits has continued developing risk assessment models to identify areas of potential vulnerabilities and financial risk in CARES Act programs under its purview. The Office of Audits continues its collaboration with other SIGPR offices in developing custom proactive analytics and technical support to identify abuse and fraudulent schemes.

Ongoing Activities

The Office of Audits has begun developing the Fiscal Year 2022 audit plan. Office of Audits officials conducted meetings with the Special Inspector General, Deputy Inspector General, Senior Advisors, the Assistant Inspector General for Investigations, and Senior Legal Counsel to identify potential areas for audit in the next fiscal year. The Office of Audits is in the process of scheduling external planning meetings with officials from Treasury, the Federal Reserve, the Office of Management and Budget, the White House, and congressional oversight personnel. The Office of Audits will issue an audit plan for Fiscal Year 2022 by September 30, 2021.

The Office of Audits continues its close partnership with the Pandemic Response Accountability Committee (PRAC), other inspectors general, the Treasury's Bureau of the Fiscal Service, the Treasury's Office of the Chief Information Officer, and other federal government entities.

Investigations

The Office of Investigations conducts criminal and civil investigations regarding allegations of fraud, abuse, or misconduct involving CARES Act funds and programs within SIGPR's jurisdiction. In addition, the office manages SIGPR's hotline, which serves as a primary avenue for reporting fraud, waste, abuse, or misconduct.

Investigative Activities

To effectively carry out its responsibilities, the Office of Investigations routinely collaborates with the rest of the SIGPR team, including auditors, analysts, and attorneys, to vet complaints, develop proactive initiatives, and pursue investigations.

During this reporting period, the office continued its investigative and proactive efforts to uncover and vigorously pursue fraud and wrongdoing related to CARES Act funding under title IV, subtitle A. The following table highlights SIGPR's investigative activities for the period.

SIGPR Investigative Activity – April 1, 2021 through June 30, 2021

Hotline Complaints Received	620
Referrals to Other Agencies	201
Preliminary Inquiries	
Opened	12
Closed (or Converted to Full Investigation)	4
Ongoing	8
Investigations	
Opened*	7
Closed	1
Ongoing	12

*Includes a PRAC task force investigation

SIGPR's investigations are conducted in partnership with various U.S. Attorney's Offices, DOJ, and other federal law enforcement partners.

SIGPR Hotline Activity

The SIGPR hotline accepts reports of potential fraud, waste, abuse, and mismanagement related to the CARES Act funding, programs, and personnel. The hotline also accepts whistleblower complaints from federal employees, former federal employees, employment applicants, employees of contractors, subcontractors, grantees and subgrantees, and personal service contractors, all of whom wish to report fraud, waste, abuse, mismanagement, or reprisal actions under the jurisdiction of SIGPR.

During this reporting period, SIGPR received 620 hotline complaints, none of which fell within SIGPR's jurisdiction.

Complaints by Category
Received April 1, 2021 – June 30, 2021

Category	Total
Title I – Paycheck Protection Program	223
Title IV, Subtitle B – Payroll Support Program	1
Title V – Coronavirus Relief Fund	44
Other	
Economic Impact Payments	37
Emergency Income Disaster Loans	4
Income Tax Related	10
Non-Program Related	256
Rental and Housing Assistance Programs	27
Social Security Benefits Related	1
Unemployment Insurance Programs	17
Grand Total	620

Table 1.1

More than a third of the allegations pertained to the Paycheck Protection Program, and more than forty percent of complaints were determined to be non-program related matters (Chart 1.1).

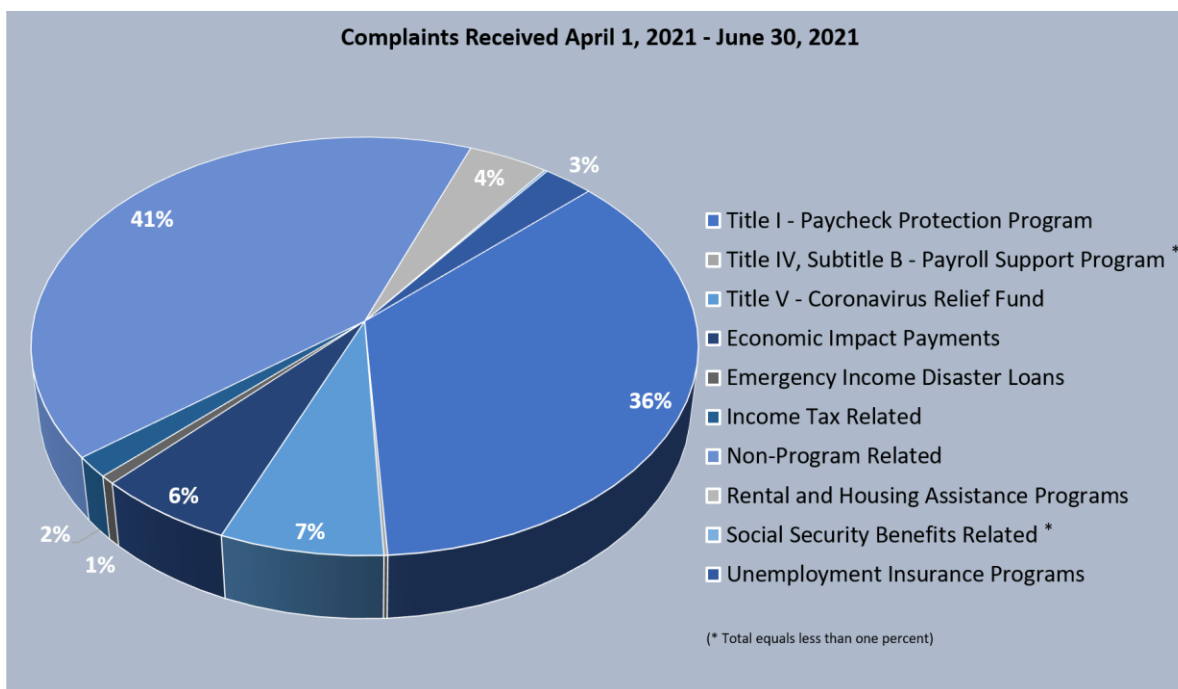


Chart 1.1

Self-Disclosure Protocol

To further the government's strong interest in allowing companies and individuals engaged in misconduct to voluntarily disclose such conduct, SIGPR has added a [“Self-Disclosure” page](#) to its website.

Voluntary self-disclosure benefits the government by revealing previously unknown fraud, waste, and abuse. It may also enable the government to gather and preserve evidence that would otherwise be lost. DOJ publishes guidelines that “identify factors that will be considered and the credit that will be provided when entities or individuals voluntarily self-disclose misconduct that could serve as the basis for False Claims Act (FCA) liability and/or administrative remedies, take other steps to cooperate with FCA investigations and settlements, or take adequate and effective remedial measures.”³ The Justice Manual further provides that “even in the absence of a formal program, prosecutors may consider a corporation's timely and voluntary disclosure, both as an independent factor and in evaluating the company's overall cooperation and the adequacy of the corporation's compliance program and its management's commitment to the compliance program.”⁴ Any company or individual who wants to make a voluntary disclosure to SIGPR on a matter that may be of interest to SIGPR should do so by making the report to SIGPR's hotline:

- Phone: (202) 927-7899
- Email: hotline@sigpr.gov
- Web: <https://www.sigpr.gov/report-fraud-waste-abuse/submit-complaint>

Self-disclosure to SIGPR does not change any preexisting obligation an entity or individual has under the law to report to or cooperate with the federal government.

Outreach Efforts

Throughout the quarter, the Office of Investigations continued its coalition-building efforts to further SIGPR's investigative mission by participating in task forces and working groups within the federal law enforcement and inspector general communities, including PRAC subcommittees.

³ See Justice Manual [Section 4-4.112](#).

⁴ See *id.* [Section 9-28.900](#).

Building Partnerships

SIGPR continues to build partnerships to strategically leverage resources and capabilities in support of lead-development, audits, investigations, and case referrals. In addition, the Special IG continues to serve as a member on the PRAC and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Legislation Committee.

In support of joint efforts to protect the integrity of pandemic relief programs, SIGPR continues to forge partnerships across the federal law enforcement and United States Attorney's Office communities, including participation in not only the DOJ COVID-19 Fraud Task Force but also the PRAC Fraud Task Force to build capacity and leverage inter-disciplinary fraud-fighting expertise.

SIGPR is particularly proud to report that among its efforts is a SIGPR-initiated pilot project that will bring the unique capabilities of several agencies to proactively build investigations of potential fraud by entities that received pandemic funds from the highest number of programs and the highest aggregated dollar amount, using the [Bank Secrecy Act](#) and other information. SIGPR looks forward to providing additional information as this pilot gets underway.



SECTION 2

FINDINGS AND DEVELOPMENTS

The CARES Act requires SIGPR to regularly report “a detailed statement of all loans, loan guarantees, other transactions, obligations, expenditures, and revenues associated with any program established by the Secretary under section 4003, as well as the information collected under subsection (c)(1).”⁵

Accordingly, below are the categories of loans and other investments made by the Treasury under CARES Act section 4003,⁶ including, where applicable and known, a list of the loans and investments made under each category and the eligible businesses to which loans were made.

Direct Loans and Other Investments

Introduction

CARES Act section 4003(a) authorized the Secretary “to make loans, loan guarantees, and other investments in support of eligible businesses, States, and municipalities that do not, in the aggregate, exceed \$500,000,000,000.” The CARES Act further divided these loans and investments into four categories. The first three, described in sections 4003(b)(1)–(3), cover loans and loan guarantees to passenger air carriers and related businesses (\$25 billion), cargo air carriers (\$4 billion), and businesses critical to maintaining national security (\$17 billion).⁷ The fourth category, described in section 4003(b)(4), authorized the Secretary to invest in various liquidity programs established by the Federal Reserve under section 13(3) of the Federal Reserve Act (\$454 billion).

The Consolidated Appropriations Act, 2021, amended the CARES Act to rescind unobligated balances of funds (\$429 billion) in these programs.⁸ It also specified that after December 31, 2020, the Federal Reserve “shall not make any loan, purchase any obligation, asset, security, or other interest, or make any extension of credit” through the liquidity programs or facilities in which Treasury had invested CARES Act funds, except for facilities in the

⁵ CARES Act § 4018(f)(1)(B).

⁶ Treasury did not establish a program for “loan guarantees” under CARES Act section 4003.

⁷ Treasury has posted on its website the contracts it has entered in connection with the administration of loans under section 4003(b)(1), (2), and (3). See U.S. Dep’t Treasury, [Other Programs](#).

⁸ See Consolidated Appropriations Act, 2021, Pub. L. 116-260, div. N §§ 1003, 1005.

Main Street Lending Program, that were authorized to purchase loans until January 8, 2021, for applications submitted by December 14, 2020.⁹

An overview of the relevant categories and amounts of Treasury's obligations remaining under CARES Act section 4003(b)(1)–(4) through June 30 is reflected in the following table:

Funding Program	Outstanding Amount as of June 30, 2021
Direct Loans to Passenger Air Carriers and Related Businesses	\$570,798,921
Direct Loans to Cargo Air Carriers	\$2,229,627
Direct Loans to Businesses Critical to Maintaining National Security	\$724,301,519
Main Street Lending Program (MS Facilities, LLC)	\$16,582,833,244
Term Asset-Backed Securities Loan Facility (TALF II, LLC)	\$3,500,000,000 (plus interest)
Primary and Secondary Market Corporate Credit Facility (Corporate Credit Facilities, LLC)	\$13,897,383,461
Municipal Liquidity Facility (Municipal Liquidity Facility, LLC)	\$6,300,000,000 (plus interest)

Direct Loans

On March 30, 2020, Treasury first announced guidelines for businesses interested in applying for loans under CARES Act section 4003(b)(1)–(3).¹⁰ Those guidelines incorporated several mandatory loan terms and conditions, with many designed to protect American taxpayers. A summary of these terms and conditions can be accessed in SIGPR's previous quarterly reports.

Air Carrier Loan Program

CARES Act section 4003(b)(1)–(2) allocated \$25 billion for loans and loan guarantees to passenger air carriers, aviation-maintenance facilities certified

⁹ *Id.* § 1005.

¹⁰ U.S. Dep't Treasury, [Procedures and Minimum Requirements for Loans to Air Carriers and Eligible Businesses and National Security Businesses under Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act](#) (Mar. 30, 2020).

under 14 C.F.R. Part 145, and air-transportation ticket agents, as well as \$4 billion for cargo air carriers.

The following table summarizes the section 4003(b)(1)–(2) loans current through this quarter.¹¹ Of note, Alaska Airlines Inc., American Airlines Inc., Hawaiian Airlines Inc., Ovation Travel Group Inc., SkyWest Airlines Inc., Sun Country Inc., and United Airlines Inc. paid in full all outstanding principal and interest.

Recipient	Loan Date	Maturity Date	Total Loan Amount	Disbursements ¹²	Total Outstanding Loan Amount ¹³	Cash Interest Receipts
Aero Hydraulics, Inc.	10/26/2020	10/24/2025	\$450,000	\$450,000	\$476,016	\$0
Alaska Airlines, Inc.	9/28/2020 (amended 10/30/2020 and 1/15/2021)	9/26/2025	\$1,928,000,000	\$135,000,000	\$0	\$2,538,900
Allflight Corporation	11/5/2020	11/5/2025	\$4,721,260	\$4,721,260	\$4,721,260	\$182,862
American Airlines, Inc.	9/26/2020 (amended 10/21/2020 and 1/15/2021)	6/30/2025	\$7,500,000,000	\$550,000,000	\$0	\$10,257,50
American Jet International Corp	11/5/2020	11/5/2025	\$1,162,124	\$1,162,124	\$1,162,124	\$45,667
Aviation Management & Repairs, Inc.	11/5/2020	11/5/2025	\$4,026,705	\$4,026,705	\$4,085,433	\$0
Bristin Travel, LLC	10/26/2020	10/24/2025	\$549,651	\$549,651	\$564,244	\$9,320

¹¹ U.S. Dep't Treasury, Loans to Air Carriers, Eligible Businesses, and National Security Businesses <https://home.treasury.gov/policy-issues/cares/preserving-jobs-for-american-industry/loans-to-air-carriers-eligible-businesses-and-national-security-businesses>.

¹² "Disbursements" includes all loan disbursements.

¹³ "Total Outstanding Loan Amount" includes all loan disbursements and increases of loan principal amount arising from payment-in-kind (PIK) interest, less any repayments of principal.

Recipient	Loan Date	Maturity Date	Total Loan Amount	Disbursements ¹²	Total Outstanding Loan Amount ¹³	Cash Interest Receipts
Caribbean Sun Airlines, Inc.	11/5/2020 (amended 12/7/2020)	11/5/2025	\$6,768,749	\$6,768,749	\$7,010,424	\$0
Eastern Airlines, LLC	10/28/2020	10/28/2025	\$15,000,000	\$15,000,000	\$15,651,359	\$0
Elite Airways, LLC	11/9/2020 (amended 12/1/2020)	11/7/2025	\$2,630,274	\$2,630,274	\$2,727,238	\$0
Frontier Airlines, Inc.	9/28/2020 (amended 1/15/2021)	9/26/2025	\$574,000,000	\$150,000,000	\$150,000,000	\$0
Hawaiian Airlines, Inc.	9/25/2020 (amended 10/23/2020 and 1/15/2021)	6/28/2024	\$622,000,000	\$45,000,000	\$0	\$450,450
Island Wings, Inc.	11/5/2020	11/5/2025	\$294,350	\$294,350	\$305,884	\$0
JetBlue Airways Corporation	9/29/2020 (amended 11/3/2020 and 1/15/2021)	11/29/2025	\$1,948,000,000	\$115,000,000	\$115,000,000	\$0
Legacy Airways, LLC	10/20/2020	10/25/2025	\$1,817,306	\$1,817,306	\$1,923,743	\$0
Mesa Airlines, Inc.	10/30/2020	10/30/2025	\$195,000,000	\$195,000,000	\$199,382,778	\$0
Ovation Travel Group, Inc.	10/15/2020	10/15/2025	\$20,000,000	\$20,000,000	\$0	\$181,881
Republic Airways, Inc.	11/6/2020	11/6/2025	\$58,000,000	\$58,000,000	\$58,000,000	\$1,114,905
SkyWest Airlines, Inc.	9/29/2020 (amended 10/28/2020 and 1/15/2021)	9/29/2025	\$725,000,000	\$60,000,000	\$0	\$1,196,767
Southern Airways Express, LLC	10/28/2020	10/28/2025	\$1,838,501	\$1,838,501	\$1,838,501	\$78,745

Recipient	Loan Date	Maturity Date	Total Loan Amount	Disbursements ¹²	Total Outstanding Loan Amount ¹³	Cash Interest Receipts
Sun Country, Inc.	10/26/2020	10/24/2025	\$45,000,000	\$45,000,000	\$0	\$77,125
Thomas Global Systems, LLC	11/9/2020	11/7/2025	\$1,400,000	\$1,400,000	\$1,455,670	\$0
Timco Engine Center, Inc.	11/5/2020	11/5/2025	\$8,390,240	\$8,390,240	\$8,723,874	\$0
United Airlines, Inc.	9/28/2020 (amended 11/6/2020, 12/8/2020, and 1/15/2021)	9/26/2025	\$7,491,000,000	\$520,000,000	\$0	\$9,517,733

Businesses Critical to National Security

CARES Act section 4003(b)(3) allocated \$17 billion for loans and loan guarantees to “businesses critical to maintaining national security.” The following table summarizes the section 4003(b)(3) loans current through this quarter.¹⁴

Recipient	Loan Date	Maturity Date	Total Loan Amount	Disbursements ¹⁵	Total Outstanding Loan Amount ¹⁶	Cash Interest Receipts
Channel Logistics, LLC	11/12/2020	11/12/2025	\$2,500,000	\$2,500,000	\$2,500,000	\$100,078
Core Avionics & Industrial, Inc.	11/5/2020	11/5/2025	\$6,000,000	\$6,000,000	\$5,331,743	\$188,933
Map Large, Inc.	11/2/2020	10/31/2025	\$10,000,000	\$10,000,000	\$10,553,320	\$0
Meridian Rapid Defense Group, LLC	10/30/2020	10/30/2025	\$7,100,000	\$7,100,000	\$7,415,707	\$79,019

¹⁴ YRC Worldwide changed their name to Yellow Corporation.

¹⁵ “Disbursements” includes all loan disbursements.

¹⁶ “Total Outstanding Loan Amount” includes all loan disbursements and increases of loan principal amount arising from payment-in-kind (PIK) interest, less any repayments of principal.

Recipient	Loan Date	Maturity Date	Total Loan Amount	Disbursements ¹⁵	Total Outstanding Loan Amount ¹⁶	Cash Interest Receipts
Ovio Technologies, Inc.	11/2/2020	10/31/2025	\$1,186,900	\$1,186,900	\$1,252,574	\$0
Semahtronix, LLC	11/13/2020	11/13/2025	\$1,999,100	\$1,999,100	\$2,077,805	\$0
Semantic AI, Inc.	11/13/2020	11/13/2025	\$506,300	\$506,300	\$526,722	\$0
SpinLaunch, Inc.	11/13/2020	11/13/2025	\$2,519,200	\$2,519,200	\$2,519,200	\$98,025
Visual Semantics, Inc.	10/30/2020	10/30/2025	\$1,053,200	\$1,053,200	\$1,100,031	\$11,722
Wiser Imagery Services, LLC	10/30/2020	10/30/2025	\$3,069,700	\$3,069,700	\$3,241,880	\$0
Yellow Corporation	7/8/2020	9/30/2024	\$700,000,000	\$681,100,000	\$687,782,537	\$8,008,368

Other Investments

CARES Act section 4003(b)(4) allocated at least \$454 billion for “loans and loan guarantees to, and other investments in, programs or facilities established by the Board of Governors of the Federal Reserve System for the purpose of providing liquidity to the financial system that supports lending to eligible businesses, States, or municipalities” by “purchasing obligations or other interests” directly from the issuer or through secondary markets, and “making loans, including loans or other advances secured by collateral.”

The Federal Reserve established several liquidity programs (Federal Reserve facilities) using its emergency lending powers under section 13(3) of the Federal Reserve Act.¹⁷ That provision, used extensively during the 2008 financial crisis and amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act,¹⁸ allows the Federal Reserve to lend money in “unusual and exigent circumstances” to participants in “any program or facility with broad-based eligibility” who are “unable to secure adequate credit accommodations from other banking institutions.”¹⁹ The Federal

¹⁷ See 12 U.S.C. § 343(3).

¹⁸ Pub. L. 111-203, 124 Stat. 1375.

¹⁹ See 12 U.S.C. § 343(3); 12 C.F.R. § 201.4(d).

Reserve, however, may not lend to insolvent entities, and its programs must be approved by the Secretary of the Treasury.

The following table summarizes the total amount of remaining CARES Act funds that Treasury invested in each Special Purpose Vehicle (SPV) as of June 30, 2021.²⁰

Recipient	Treasury Investment Remaining as of June 30, 2021
Corporate Credit Facilities, LLC	\$13,897,383,461
Municipal Liquidity Facility, LLC	\$6,300,000,000 (plus interest)
TALF II, LLC	\$3,500,000,000 (plus interest)
MS Facilities, LLC	\$16,582,833,244

The following table summarizes the portfolio holdings of the facilities as of the July 1, 2021 release of the Federal Reserve's balance sheet.²¹

Facility	Outstanding Amount of Purchased Loan Participations, Notes, and Other Securities	Treasury Contributions and Other Assets	Total
Corporate Credit Facilities, LLC	\$10,174,000,000	\$15,727,000,000	\$25,902,000,000
Municipal Liquidity Facility, LLC	\$4,771,000,000	\$5,969,000,000	\$10,740,000,000
TALF II, LLC	\$1,622,000,000	\$3,067,000,000	\$4,689,000,000
MS Facilities, LLC	\$13,542,000,000	\$17,004,000,000	\$30,547,000,000

Effective June 30, 2021, the bond holdings of Corporate Credit Facilities, LLC, are presented on a market value basis, reflecting the change in accounting treatment from hold-to-maturity to trading securities due to the intent to actively wind down the portfolio.

²⁰ See [Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board under Section 13\(3\) of the Federal Reserve Act](#) (July Periodic Report) (Jul. 12, 2021).

²¹ See Board of Governors of the Federal Reserve System, Factors Affecting Reserve Balances - H.4.1, <https://www.federalreserve.gov/releases/H41/>.

An evaluation of loan participations purchased by the Main Street Facilities, LLC, resulted in it recording a loan loss allowance in the amount of \$2.7 billion as of March 31, 2021. This allowance for loan losses is estimated based upon its holdings as of March 31, 2021, and does not indicate actual losses experienced by the program. As of June 30, 2021, Main Street Facilities, LLC, has recognized approximately \$4 million in actual loan losses.

SIGPR's last quarterly report describes the functioning of these facilities, which have stopped extending loans or purchasing obligations. Transaction-specific details for the facilities are available on the [Federal Reserve's website](#).

TREASURY



SECTION 4

CHALLENGES AND
PROPOSALS

Jurisdiction

As a result of the Department of Justice’s Office of Legal Counsel opinion finding that the CARES Act limited SIGPR’s jurisdiction to title IV, subtitle A of the CARES Act, SIGPR has ended multiple audits and investigations. SIGPR respectfully asks that Congress consider legislation granting SIGPR jurisdiction over all pandemic-related federal programs managed by the Treasury Department.

Access to Information

Access to borrower and lender information is critical to preventing and remediating fraud, waste, and abuse in CARES Act programs.²² Both Treasury’s Direct Loan Program and the Main Street Lending Program (MSLP) required applicants to certify their eligibility for assistance and, to some degree, provide documentation demonstrating that eligibility. Both programs also require periodic updates from borrowers to their lender. But SIGPR has only limited access-as-of-right to that information for the MSLP.

Treasury, as the direct lender in its loans to aviation and national security businesses, has required borrowers to provide Treasury with access to their books and personnel. Borrowers have agreed to provide

Treasury, the Treasury Inspector General, the Special Inspector General for Pandemic Recovery, and such other entities as are authorized by Treasury timely and unrestricted access to all documents, papers, or other records, including electronic records, of the Borrower related to the Loan, to enable Treasury, the Treasury Inspector General, and the Special Inspector General for Pandemic Recovery to make audits, examinations, and otherwise evaluate the Borrower’s compliance with the terms of the Agreement. This right also includes timely and reasonable access to the Borrower’s and its Affiliates’ personnel for the purpose of interview and discussion related to such documents.

This access is essential to ensuring the proper administration of this program and the protection of the billions of taxpayer dollars put into it.

²² SIGPR explained the importance of data access, and the difficulty of using subpoenas to collect the bulk information in CARES Act programs, in SIGPR’s last quarterly report. See Special Inspector General for Pandemic Recovery, [Quarterly Report to the United States Congress](#) 37–38 (Apr. 30, 2021). In this report, we expand on solutions to that issue, including the use of contractual, as well as statutory, provisions to improve access to borrower and lender information.

Neither Treasury nor SIGPR, however, enjoy a contractual right of access to documents or personnel in the MSLP. To implement the MSLP, the Federal Reserve Bank of Boston set up a special purpose vehicle (SPV) to purchase participations in loans originated by eligible lenders. Borrowers in the program promise to retain records containing the basis for their eligibility and compliance under the CARES Act and to make that information available to the Federal Reserve Bank of Boston or to external auditors. Borrowers must submit a great deal of data quarterly and annually to their lenders as well. Lenders promise to retain records containing the basis for their certification and compliance regarding CARES Act-defined conflicts of interest and to make that information available to the Federal Reserve Bank of Boston or to external auditors. And in turn, the Federal Reserve Bank of Boston relied on lenders' underwriting processes to ensure its loan-participation purchases are viable. The SPV is managed by the Federal Reserve Bank of Boston and funded, in part, by CARES Act-appropriated funds invested by Treasury. Yet neither borrowers nor lenders promise to make records available to Treasury or SIGPR, despite Treasury's tens of billions of dollars pledged to absorb losses on the loans.

Ready access is especially needed in the MSLP because it connects private borrowers, private lenders, the Federal Reserve Bank of Boston, and Treasury. SIGPR is housed in Treasury, not the Federal Reserve, so SIGPR's immediate rights of access are limited to one entity in the relationship. And the other entities are not government agencies, which can also create legal barriers to information. Our colleagues at the Federal Reserve and the Federal Reserve Bank of Boston have been extremely helpful partners, but in the absence of superseding statutory provisions or contractual provisions routinizing regulatory requirements, the default legal framework requires that our information requests be subject to discretionary accommodation and cooperation,²³ rather than that the information be shared fully and rapidly as of right. The Main Street SPV's LLC agreement does not ameliorate this issue, as it states that the Federal Reserve Bank of Boston only "agrees to provide [Treasury] reporting and documentation as mutually agreed to by [the Bank]

²³ See 12 C.F.R. § 261.22(c), (e) (granting the Federal Reserve Board's general counsel discretionary authority to disclose nonpublic information to government agencies, upon meeting certain conditions).

and [Treasury], which at a minimum will include all information necessary for [Treasury] to comply with its statutory reporting obligations.”²⁴

This is not the first time a Treasury special inspector general has noted the need for readier access to information in a Federal Reserve program where billions of Treasury dollars — taxpayer dollars — are at risk. A similar issue arose a decade ago in the first Term Asset-Backed Securities Loan Facility program (TALF 1). Beginning in 2009, the Federal Reserve extended loans to borrowers who pledged certain highly rated asset-backed securities as collateral. These loans came with a “haircut” — the collateral’s value had to exceed that of the loan by a certain percentage. The loans were nonrecourse. For borrowers who walked away, the Federal Reserve Bank of New York created an SPV, TALF 1, to dispose of their collateral and, hopefully, recover fully the loaned amount. Funds lent from Treasury backed TALF 1, and Treasury agreed to absorb any losses from ultimately insufficient collateral.²⁵

TALF 1 included some contractually guaranteed oversight for the Special Inspector General for the Troubled Asset Relief Program (SIGTARP). Treasury’s lending agreement provided that the SPV and the Federal Reserve Bank of New York shall permit Treasury, SIGTARP, and GAO “access to personnel and any books, papers, records or other data . . . delivered to it . . . to the extent relevant to ascertaining compliance with the terms and conditions set forth in the Loan Documents [the documents governing the relationship between Treasury, the Bank, and the SPV].”²⁶

Yet, as SIGTARP observed, these provisions, though helpful, were not the same as contractually guaranteed access to borrowers. SIGTARP thus recommended — in its very first report — that borrowers agree that they are subject to Treasury and SIGTARP oversight.²⁷ SIGTARP also recommended that Treasury develop “a robust compliance protocol with complete access rights to all TALF transaction participants for itself, SIGTARP, and other relevant oversight bodies.”²⁸ (Treasury and the Federal Reserve Bank of New York declined this recommendation over concerns that it would discourage

²⁴ [Amended and Restated Limited Liability Company Agreement of MS Facilities LLC](#) § 17(c) (May 29, 2020).

²⁵ See generally SIGTARP, [Quarterly Report to Congress](#) 95–101 (Apr. 21, 2009).

²⁶ [Credit Agreement among TALF LLC, Fed. Res. Bank of N.Y., and U.S. Dep’t of the Treasury](#) § 9.19 (Mar. 3, 2009).

²⁷ SIGTARP, [Initial Report to the Congress](#) 100 (Feb. 6, 2009).

²⁸ SIGTARP, [Quarterly Report to Congress](#) 189 (July 21, 2009).

participation and in light of the Reserve Bank's rights to inspect borrowers and review their loan files.²⁹⁾

Just as SIGTARP called for greater access to borrower information to ensure the protection of Treasury's TALF 1 funds, taxpayers would benefit from greater access to borrower information to ensure the protection of Treasury's MSLP funds. That need is likely even greater, in fact, given that features of the MSLP may make it a higher-risk program than TALF 1. The loans in TALF 1 were secured by collateral that exceeded its value; no equivalent requirement exists in the MSLP. The loans in TALF 1 were extended by the Federal Reserve Bank of New York based on collateral rated as AAA by major, nationally recognized statistical rating organizations;³⁰ MSLP loans were cash-flow loans extended to borrowers that met minimum program criteria, including a maximum debt-to-EBITDA ratio and applicable collateral requirements, by hundreds of private lenders that employed their own underwriting practices.

In future lending programs jointly administered by the Federal Reserve and a federal agency like Treasury, inspectors general of the agency should be provided, by law or contract, reasonable and ready access to loan documentation. Such programs should provide inspectors general the right to the relevant records of borrowers and, where private lenders are used as intermediaries, to their records as well.

The underlying principle is a simple one: an entity putting its money at risk should be entitled to see how well that money is being protected. Federal Reserve regulations govern the disclosure of records that contain confidential information. Under normal circumstances, the Federal Reserve and the Federal Reserve Banks are extremely careful about sharing confidential supervisory information and other nonpublic information, even with federal regulatory agencies, though they can do so.³¹ That regime is appropriate for programs run exclusively by the Federal Reserve or its Reserve Banks, for they are getting all the information they need. But in a lending program like the MSLP where Treasury has committed to absorbing certain losses — a program that by its joint nature is almost without precedent in the Federal Reserve's history — the parties stand differently. Treasury is not one of any of dozens of government regulators in which Federal Reserve information is incidentally needed; Treasury is a partner in the endeavor, and its money is

²⁹ See *id.* at 244.

³⁰ See *id.* at 97.

³¹ See 12 C.F.R. § 261.22(c).

specifically and particularly at risk of loss. It should have immediate rights to see what is happening to that money, and the legal regime should reflect that.

Such a requirement — that the government spender of money is entitled to monitor it — is typical in other government programs. For instance, Treasury and its inspector general have access to the records and personnel of Payroll Support Program recipients. And broad access to records is standard operating procedure for federal grantees and contractors. Non-construction grant recipients must certify that they “[w]ill give the awarding agency, the Comptroller General of the United States, and, if appropriate, the State, through any authorized representative, access to and the right to examine all records, books, papers, or documents related to the award.”³² Likewise, federal contractors on many types of contracts must agree to open their books to their contracting officers and to the Comptroller General.³³ A similar requirement for participants in federal emergency lending programs to grant access to the relevant inspectors general would help ensure proper oversight and lessen the need for both negotiation within the government and subpoenas to private parties.

Enhanced access to borrower and lender information could be accomplished in a variety of ways, with access adjusted to be less or more comprehensive according to the relative needs for fraud and waste prevention, private-sector participation, and agency resources. In the MSLP, for instance, a simple solution would have been a requirement in the SPV’s LLC agreement that Treasury and SIGPR are entitled to MSLP borrower and lender documentation in the possession of the SPV or the Federal Reserve Bank of Boston. This would have been information already in a “box,” so to speak, at the Bank. This requirement would not have imposed any additional burdens on borrowers or lenders, nor does SIGPR believe it would have discouraged participation, as participants were already on notice that these were government-backed loans and thus subject to government scrutiny. This requirement would have instead simply allowed Treasury and SIGPR to look inside the box, the same as their Federal Reserve partner.

In other jointly funded lending programs, a more rigorous regime might be in order. For instance, a program could require that borrowers, lenders, or both, agree by contract that they must submit their documentation, either as a

³² OMB Standard Form 424B (Rev. 7-97).

³³ See 48 C.F.R. § 52.215-2.

condition of funding or upon request, to Federal Reserve entities, Treasury, and relevant inspectors general.



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