

SBA'S PAYCHECK PROTECTION PROGRAM LOAN REVIEW PROCESSES

REPORT NUMBER 22-09 | FEBRUARY 28, 2022





EXECUTIVE SUMMARY

SBA'S PAYCHECK PROTECTION PROGRAM LOAN REVIEW PROCESSES

Report 22-09

February 28, 2022

What OIG Reviewed

We conducted this evaluation to assess the U.S. Small Business Administration's (SBA) processes for reviewing Paycheck Protection Program (PPP) loans for eligibility and forgiveness.

To receive loan forgiveness, a borrower must submit the loan forgiveness application to their lender. The lender then has 60 days to render a forgiveness decision to SBA. The agency is required to remit the appropriate forgiveness amount to the lender within 90 days.

To conduct our evaluation, we reviewed applicable laws, regulations, and requirements governing PPP loan eligibility and forgiveness in addition to guidance in SBA's PPP Interim Final Rules, PPP Frequently Asked Questions, and internal policies and procedures for performing loan reviews. We also analyzed PPP loan data and interviewed staff responsible for performing loan reviews.

What OIG Found

SBA's online loan forgiveness platform used by lenders to submit forgiveness requests is adequate to support SBA's loan review process. However, we found that for loans totaling \$66.4 billion SBA did not meet the 90-day statutory requirement to remit forgiveness payments to lenders.

This issue included not meeting the 90-day requirement for 98.2 percent of loans over \$2 million. Not completing reviews of loans and remitting payment promptly creates uncertainty for borrowers and PPP lenders who are unsure if SBA will forgive their loans.

We also identified other matters that SBA should address, as follows:

In June 2021, SBA changed its process to review loans prioritized by risk rather than order the forgiveness application was

submitted. SBA also made changes to allow certain loans to be retroactively reviewed for fraud and eligibility after they have been forgiven.

We have concerns about the impact these changes will have on SBA's ability to recover funds for forgiven loans later determined to be ineligible.

Outstanding loan forgiveness applications are a potential indicator of fraud. Borrowers who fraudulently obtained a PPP loan are unlikely to apply for loan forgiveness.

We identified 1.9 million loans totaling \$177.3 billion with no forgiveness application as of May 2021.

Changes to program requirements for Schedule C borrowers may increase the risk of fraudulent loans. Many of the loans made to Schedule C borrowers were made by lenders, including financial technology (fintech) lenders, who rely exclusively on third-party loan processing or software platform vendors they hire to complete loan processes. Such lenders do not have a relationship with SBA.

OIG Recommendation

We recommend that SBA develop a plan to ensure remaining forgiveness reviews and remittances are completed within 90 days as required by the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

Agency Response

SBA management agreed with the report finding and recommendation, stating it implemented process improvements and policies to reduce manual review processing times. Management stated that 85 percent of reviews completed in 2021 were done within the 90-day requirement. The remaining 15 percent took longer due to eligibility and compliance issues.




Office of Inspector General

U.S. Small Business Administration

DATE: February 28, 2022

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware
Inspector General 

SUBJECT: SBA's Paycheck Protection Program Loan Review Processes

This report presents the results of our evaluation of the U.S. Small Business Administration's *Paycheck Protection Program Loan Review Processes*. We considered management's comments on the draft of this report when preparing the final report. Management agreed with the recommendation.

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

cc: Patrick Kelley, Associate Administrator, Office of Capital Access
Antwaun Griffin, Chief of Staff
Arthur Plews, Deputy Chief of Staff
Peggy Delinois Hamilton, General Counsel, Office of General Counsel
John Miller, Deputy Associate Administrator, Office of Capital Access
Michael Simmons, Attorney Advisor, Office of General Counsel
Joshua Barnes, Acting Director, Office of Continuous Operations and Risk
Management
Jason Bossie, Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls

Table of Contents

Introduction	1
SBA’s Loan Review Process	1
Forgiveness Requirements	1
Initial Loan Review Process (Initiated October 2020)	2
Previous Work	4
Objective.....	4
Results.....	4
Finding: SBA Did Not Always Meet the 90-Day Statutory Requirement to Remit Loan Forgiveness Payments	6
Recommendations.....	9
Other Matters	10
Significant Changes to the Loan Review Process	10
Prioritizing Loan Reviews Based on Risk	10
Review of Loans \$2 million and Greater	10
SBA Needs to Monitor Loans with Outstanding Loan Forgiveness Applications	11
SBA Should Assess How Changes in Program Requirements Affect the Loan Eligibility and Forgiveness Review Process	12
Analysis of Agency Response	14
Summary of Actions Necessary to Close the Recommendation	14
Recommendation 1.....	14
Appendix I: Objectives, Scope, and Methodology	15
Objectives	15
Use of Computer-Processed Data.....	15
Appendix II: Management Comments.....	16

Introduction

This report presents the results of our evaluation of U.S. Small Business Administration's (SBA) processes for reviewing Paycheck Protection Program (PPP) loans for eligibility and forgiveness. This report is the first in a series of reviews that will include an in-depth analysis of PPP loans to assess the effectiveness of SBA's PPP loan reviews.

The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020 to provide economic relief from the effects of the Coronavirus Disease 2019 (COVID-19) pandemic. One of the Act's most significant provisions, Section 1102, provided \$349 billion for the PPP under section 7(a) of the Small Business Act.

The PPP provides fully guaranteed SBA loans for certain eligible small businesses, individuals, and nonprofit organizations that can be forgiven if loan proceeds were used as required by the CARES Act. Eligible expenses include payroll, rent, utilities, and other limited uses. On April 24, 2020, the President signed the Paycheck Protection Program Health Care Enhancement Act to provide an additional \$310 billion to PPP.

On June 5, 2020, the President signed the Paycheck Protection Program Flexibility Act to provide borrowers additional relief, including reducing the percentage of eligible expenses used for payroll costs and extending the maturity period for loans. On July 4, 2020, Congress passed legislation that extended the program until August 8, 2020. As of August 8, 2020, 5,460 PPP lenders approved approximately 5.2 million PPP loans totaling \$525 billion.

On December 27, 2020, the President signed the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, which included an additional \$284 billion of funding for a second round of forgivable loans through the PPP.

As of May 12, 2021, lenders had submitted 3.2 million loan forgiveness applications to SBA on loans totaling \$343 billion. SBA has remitted payments for 3.1 million applications with loan forgiveness totaling \$263 billion, not including interest.

SBA's Loan Review Process

Forgiveness Requirements

To receive loan forgiveness, a borrower must complete and submit the loan forgiveness application to their lender. The lender has 60 days to review the application, decide on loan forgiveness, and issue a forgiveness decision to SBA. The agency must remit the appropriate forgiveness amount to a lender within 90 days of receiving the lender's forgiveness decision.¹

¹ CARES Act Section 1106 (c)(3), 15 USC §9005.

Initial Loan Review Process (Initiated October 2020)

Government contractors and SBA federal and contract staff, under the supervision of SBA's Office of Capital Access, conduct the loan review process. The process implemented in October 2020 consists of

- an automated review of all loans at an individual and aggregate level,
- preliminary manual reviews performed by government contractors to resolve loans identified for follow-up during automated screenings, and
- manual reviews performed by SBA, as deemed necessary, based on loan dollar amount, random statistical sampling, and loans unresolved after automated and preliminary manual reviews.

As initially implemented, reviews were conducted on loans with a submitted forgiveness application and were prioritized based on the date received. However, SBA has the authority to review a PPP loan of any size at any time and, when warranted, direct borrowers to repay funds used for unauthorized purposes.²

SBA screened all 5.2 million PPP loans disbursed in 2020 through an automated tool to identify issues of potential noncompliance with program requirements. The automated review resulted in about 1.96 million loans being flagged with a hold code that triggered the need to be considered for a manual review.

To resolve these loans, SBA used data analytics based on completed manual reviews to identify groups of loans with characteristics that indicated minimal noncompliance that could be resolved and reclassified as not needing a manual review. For example, loans of \$150,000 or less that do not have an excessive number of hold codes, or hold codes related to fraud.

Based on the results of 20,000 completed manual reviews, SBA's contractor then used machine learning (a type of programmed artificial intelligence) to identify additional loans that could be resolved without conducting a manual review. Subsequently, SBA resolved about 1.7 million of the 1.96 million loans without performing a manual review, speeding up the forgiveness process for these loans.

Loans with unresolved hold codes, such as a borrower's criminal record or business affiliation issues, are manually reviewed by government contractors. The objective of the contractor manual review is to identify and resolve hold codes through the review of loan data, research, and requests for documentation.

The contractor's manual review results in a recommendation of either "no further action" or "requires further action." Loans dispositioned as "no further action" were forgiven for the recommended amount without SBA manual review unless they met other review criteria.

² 85 Federal Register 33010 (III)(1)(c) and 85 FR 20811 (III)(2)(S).

For loans dispositioned as requiring further action, the contractor prepares a report detailing why further action is required. SBA conducts an additional manual review on all loans requiring further action.

SBA manually reviewed loans of \$2 million or greater, a statistically valid sample of loans, and loans with unresolved hold codes. SBA uses an online loan forgiveness platform to complete the reviews.

The platform contains resources for reviewers, including a questionnaire specific to the level of review. SBA has three levels of manual reviews it performs to determine eligibility and forgiveness:

1. R1 (sampled loans less than \$150,000)
 - An R1 review is the least extensive manual review performed. The review focuses on the eligibility of the loan.
2. R2 (sampled loans greater than \$150,000 but less than \$2 million)
 - An R2 review includes reviewing documentation and calculations to support the responses for questions related to the eligibility, calculation, and forgiveness of the loan.
3. R3 (all loans greater than \$2 million and loans with hold codes)
 - An R3 review is the most extensive manual review performed on the largest loans and loans flagged for possible noncompliance. In addition to all the areas covered by an R2, the R3 also assesses the borrower’s need for the PPP loan based on the required certification and supporting documentation.

As of May 12, 2021, more than 99 percent of forgiven loans were based on an automated review (see Table 1).

Table 1: Completed Forgiveness Reviews by Review Type

Review Type	Completed Reviews	Completed Reviews (percent)
Automated	3,101,063	99.08
R1	22,663	0.72
R2	4,866	0.16
R3	1,198	0.04
Total	3,129,790	--

Source: SBA Forgiveness Platform data

On August 10, 2020, SBA launched its online loan forgiveness platform for lenders to submit forgiveness decisions and requests. However, SBA did not begin manually reviewing forgiveness decisions necessitating a review until finalization of its Master Loan Review Plan on October 2, 2020.

The agency did not begin performing manual reviews of loans \$2 million or greater until January 20, 2021. In June 2021, SBA made significant changes to its loan forgiveness and loan review processes. See the Other Matters section in this report for additional details.

Previous Work

“Key Recommendations Based on Lessons Learned from Prior COVID-19 Economic Injury Disaster and Paycheck Protection Program Loan Programs,” December 23, 2020

Provided SBA key recommendations to strengthen internal controls to prevent fraud and ensure only eligible businesses receive funds. Find this memorandum on our [OIG Reports site](#).

Inspection of SBA’s Implementation of the Paycheck Protection Program, Report 21-07, January 14, 2021

SBA loosened controls in an effort to expedite economic assistance during the COVID-19 pandemic, increasing the likelihood of fraudulent loans. We also found aspects of SBA’s implementation of the PPP that could prevent Congress and SBA management from having the information needed to determine if program objectives were fully met. Find this inspection report on our [OIG Reports site](#).

Duplicate Loans Made Under the Paycheck Protection Program, Report 21-09, March 15, 2021

We determined SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans. As a result, lenders made more than one PPP loan disbursement to 4,260 borrowers with the same tax identification number and borrowers with the same business name and address. Find this report on our [OIG Reports site](#).

The Small Business Administration’s Implementation of Recommended Controls and the Economic Aid Act, Report 21-19, August 12, 2021

We found SBA has either implemented or begun acting on all of the OIG recommendations to strengthen internal controls related to the PPP, as outlined in the OIG Key Recommendations memorandum. Find this report on our [OIG Reports site](#).

Objective

Our objective was to assess SBA’s processes for reviewing PPP loans for eligibility and forgiveness.

Results

Based on our assessment, SBA’s online loan forgiveness platform used by lenders to submit forgiveness requests is adequate to support SBA’s loan review process. Specifically, the platform appears to support the assignment of loans to reviewers, contains key information, resources, and checklists for staff to complete reviews, and appears to be user friendly.

We reviewed the checklists used by SBA staff to complete forgiveness reviews and found that the checklists included all significant program requirements and appeared to be designed to provide a detailed review of loans.

We found that SBA has processed over 3.1 million loan forgiveness applications but did not always meet the statutory 90-day requirement for remitting payments to lenders. Of note, SBA did not meet this requirement for nearly all (98.2 percent) of PPP loans \$2 million or greater.

We also identified the following other matters SBA should address moving forward:

- Continue to monitor the impact of significant changes made to its loan review process that allows for remitted forgiveness payment and retroactive review of certain loans, to mitigate risk associated with a pay and chase environment and ensure program objectives are met.
- Continue to closely monitor loans for which forgiveness applications have not yet been submitted. We believe that a portion of these loans were obtained by fraudulent applicants who are less likely to submit a forgiveness application because they have already obtained the funds with no intentions to use them appropriately or repay the loan.
- Assess how recent changes to requirements for Schedule C borrowers has affected fraud risk. Many of the Schedule C loans were made by lenders that made few PPP loans in 2020. These lenders also rely exclusively on third-party loan processing or software platform vendors they hire to complete loan processes.

Finding: SBA Did Not Always Meet the 90-Day Statutory Requirement to Remit Loan Forgiveness Payments

The CARES Act requires SBA to remit the appropriate forgiveness amount to a lender within 90 days.³ As of May 12, 2021, SBA exceeded the 90-day requirement to remit forgiveness payment for 98.2 percent of loans \$2 million or greater with a processed loan payment.

The Government Accountability Office (GAO) reported that on average SBA completed its determination and remitted loan forgiveness payments for loans over \$2 million in 181 days.⁴ Overall, SBA exceeded the 90-day requirement for 107,168 loans, totaling \$66.4 billion.

Table 2: Remitted Forgiveness Payments Exceeding 90 Days

Loan Value (dollars)	Loans with Remitted Forgiveness Payment	Remittance Not Completed in 90 Days (percent)	Value of Loans Unremitted in 90 Days (dollars)
1 - 50,000	2,086,066	27,247 (1.3 percent)	444,660,576
50,001 - 149,999	657,876	7,584 (1.2 percent)	664,221,492
150,000 - 999,999	353,255	22,045 (6.2 percent)	7,948,843,052
1,000,000 - 1,999,999	31,780	3,228 (10.1 percent)	4,766,798,882
2,000,000 - 10,000,000	813	799 (98.2 percent)	2,682,667,163
Total	3,129,790	60,903 (1.9 percent)	16,507,191,165

Source: SBA Forgiveness Platform and Mainframe Loan Accounting System Data

³ Public Law 116-136 Section 1106 (c)(3), 15 USC § 9005.

⁴ GAO-21-577, *Paycheck Protection Program* (July 2021).

Table 3: In Process Forgiveness Payments Exceeding 90 Days

Loan Value (dollars)	Loans in Forgiveness Process	Remittance Not Completed in 90 Days (percent)	Value of Loans Unremitted in 90 Days (dollars)
1 - 50,000	47,126	13,533 (28.7 percent)	257,345,543
50,001 - 149,999	15,261	3,178 (20.8 percent)	287,074,650
150,000 - 999,999	26,218	15,451 (58.9 percent)	6,293,853,135
1,000,000 - 1,999,999	5,591	3,450 (61.7 percent)	4,950,042,754
2,000,000 - 10,000,000	16,839	10,653 (63.3 percent)	38,136,077,480
Total	111,035	46,265 (41.7 percent)	49,924,393,562

Source: SBA Forgiveness Platform and Mainframe Loan Accounting System Data

SBA management stated several factors contributed to the delay in manual reviews, including the completion of the Master Loan Review Plan in October 2020. SBA and the Department of the Treasury did not finalize the eligibility and forgiveness review checklist for loans of \$2 million or greater until January 2021, after the issuance of the loan necessity questionnaire in December 2020. SBA also cited the need to redirect resources to competing priorities. The agency also had delays in budget and funding approvals for the contractor tasked with completing initial reviews. Management acknowledged that not meeting the requirement causes uncertainty for borrowers awaiting a forgiveness decision. They may be unsure if SBA will determine their loan will be fully forgiven.

The uncertainty borrowers and lenders face could potentially impact business and lending decisions they make. While the overall percentage of loans exceeding the 90-day requirement may be low, over 107,000 borrowers were affected and waited more than 3 months for remitted forgiveness.

SBA's initial review process required all loans of \$2 million or greater to be manually reviewed by the agency. In June 2021, SBA revised its loan review process and stopped reviewing all loans of \$2 million or greater and, in certain instances, will retroactively manually review loans for fraud and ineligibility after they have been forgiven. SBA management stated that the changes were made in part because the agency was not meeting the 90-day statutory requirement to remit forgiveness payments.

While changes to the loan forgiveness process may mitigate the problem of not meeting the 90-day requirement going forward, SBA should take immediate action to complete reviews currently in process that are close to or over 90 days. It should also examine the primary and systemic issues for not meeting the requirement and apply the lessons learned to the remaining forgiveness reviews to ensure eligible borrowers loans are forgiven in a timely manner and to proactively address potentially ineligible or fraudulent loans.

We have concerns regarding how the new process could affect SBA's ability to recover funds from ineligible and fraudulent borrowers. When the PPP launched in 2020, SBA's fraud risk management approach for PPP loans was intentionally developed with more fraud and eligibility controls in the loan forgiveness phase rather than the initial application stage.

SBA's changes to this process, including forgiving and remitting loans prior to an eligibility or forgiveness review, could diminish SBA's ability to recover funds, create a pay and chase environment, and result in the government expending additional resources. For example, loans determined to be fraudulent after payment has been remitted will require the government to spend time retrieving the original loan amount from the fraudulent borrower and the remittance amount from the lender.

Recommendations

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

1. Develop a plan to ensure remaining forgiveness reviews and remittances are completed within 90 days as required by the CARES Act.

Other Matters

Significant Changes to the Loan Review Process

In June 2021, SBA made significant changes to its loan forgiveness and loan review processes. Below is a summary of those significant changes. We reviewed documentation provided by SBA showing its justification for the changes. We also reviewed SBA's revised loan review procedures.

Prioritizing Loan Reviews Based on Risk

SBA's new process for loan reviews prioritizes reviews based on fraud risk rather than forgiveness status. The change will allow SBA to review loans with a high risk of fraud that have not yet filed for forgiveness.

The change also means that a certain number of loans will be retroactively manually reviewed after they have been forgiven. SBA can review and recover funds used for unauthorized purposes at any time.

However, the Office of Management and Budget established that for Executive Offices to be effective, they should prioritize efforts toward preventing improper payments from occurring to avoid operating in a pay and chase environment.

Review of Loans \$2 million and Greater

SBA's initial review process required all loans of \$2 million or greater to be manually reviewed by SBA, as established by the former SBA Administrator and former Treasury Secretary in April 2020. GAO reported that according to Treasury officials, it was prudent for SBA to take additional time to review the largest loans given the additional risk associated with these loans.⁵

However, in June 2021, SBA decided it will no longer perform manual reviews of all loans \$2 million or greater. Instead, SBA will review all loans of \$2 million and greater with unresolved hold codes and a statistically valid sample of loans \$2 million and greater. SBA is also eliminating the use of loan necessity questionnaires, which collect additional information on borrowers of \$2 million or greater and will no longer perform an assessment of loan necessity for loans of \$2 million or greater.⁶

SBA stated completed loan necessity reviews found most borrowers met the good faith requirement and the reviews contributed to SBA exceeding the 90-day statutory requirement to remit forgiveness payments to lenders.

SBA management said the changes help the agency meet the 90-day statutory requirement to remit forgiveness payments to lenders and cited three benefits of the new approach: 1) better ability to target fraud; 2) better use of government resources; and 3) alleviation of borrower uncertainty.

⁵ GAO-21-577, *Paycheck Protection Program* (July 2021).

⁶ SBA forms 3509 and 3510.

SBA management also stated the new approach, which includes in some cases forgiving loans prior to performing manual review, does not increase SBA’s financial exposure due to the 100 percent guaranty on PPP loans and the lender hold harmless provisions, introduced by the CARES Act and strengthened by the Economic Aid Act⁷. As a result, SBA will then have to pursue the borrower to repay funds, which could prove more challenging and result in taxpayer funds being spent on ineligible loans.

SBA should continue to monitor the impact of significant changes made to the loan review process to ensure loans continue to be adequately reviewed for program requirements and that SBA can recover funds for loans not meeting requirements.

SBA Needs to Monitor Loans with Outstanding Loan Forgiveness Applications

Changes made by SBA to review high risk loans that have not yet filed for forgiveness could address an area of concern we identified. As of May 12, 2021, 1.9 million loans, totaling \$177.3 billion, did not have a lender-submitted forgiveness application (see Table 4).

The large number of borrowers who have not applied for forgiveness could be a strong indicator of fraud because borrowers who fraudulently obtained a PPP loan are unlikely to apply for loan forgiveness because they have already obtained the funds with no intention to use the funds appropriately or repay the loan.

Table 4: Outstanding 2020 PPP Loan Forgiveness

Loan Amount (dollars)	Number of Loans Not Yet Submitted for Loan Forgiveness (percent of total outstanding)	Value of Loans
1 - 50,000	1,377,946 (72.5 percent)	22,668,263,472
50,001 - 149,999	298,298 (15.7 percent)	25,407,902,118
150,000 - 999,999	198,122 (10.4 percent)	65,269,935,262
1,000,000 - 1,999,999	15,852 (0.8 percent)	22,021,392,930
2,000,000 - 10,000,000	11,332 (0.6 percent)	41,904,667,226
Total	1,901,550 (100 percent)	177,272,161,008

Source: SBA Forgiveness Platform and Mainframe Loan Accounting System Data

SBA has taken action to reduce the number of outstanding forgiveness applications. On August 4, 2021, SBA launched the PPP Direct Forgiveness Portal, a streamlined loan forgiveness site for borrowers with loans of \$150,000 or less. For the PPP loans made in 2020, this represented 87 percent of the PPP loans totaling \$147 billion.

This online portal allows borrowers to apply for loan forgiveness directly with SBA if their lender is participating. For those who are eligible, the portal should make it easier and quicker for borrowers to receive loan forgiveness. As of October 31, 2021, loans that did not have a lender submitted forgiveness application decreased to approximately 402,000.

⁷ The hold harmless provision is when the lender doesn’t have financial responsibility to repay the loan due to a borrower’s failure to comply with program criteria.

While SBA has taken action to reduce the number of outstanding forgiveness applications, it should continue to closely monitor loans with outstanding forgiveness applications. As established by the PPP Flexibility Act, a covered period for borrowers ends the earlier of 24 weeks after the date of loan origination or December 31, 2020. Loan recipients then have up to 10 months from the last day of their covered period to file for loan forgiveness or begin making payments on their loan.⁸

A borrower may apply for forgiveness at any time up to the maturity date of their loan. For example, a borrower whose covered period ended on December 31, 2020 had until October 31, 2021 to apply for forgiveness before loan repayment begins. After the 10-month deferral period, if a borrower has not applied for loan forgiveness, they must begin making principal and interest payments.

As SBA has simplified the loan forgiveness process and most borrowers are receiving full forgiveness, forgiveness submission without having to begin making loan payments is generally expected. Most 2020 borrowers were likely to apply for forgiveness by October 31, 2021 to avoid making loan payments, and lenders have 60 days to review a forgiveness application. SBA can expect that approximately 402,000 loan forgiveness applications will be submitted by lenders to SBA by December 30, 2021.

SBA Should Assess How Changes in Program Requirements Affect the Loan Eligibility and Forgiveness Review Process

OIG oversight has revealed strong indicators of widespread potential abuse and fraud in the PPP. Since the program began, we have investigated reports of suspected fraud received from OIG Hotline complaints, financial institutions, and other law enforcement agencies.

Additional concerning trends emerged in 2021 after SBA made changes to expand access to the program for borrowers who file a 1040, Schedule C. Multiple third-party financial institutions contacted OIG expressing concerns regarding PPP deposits in personal accounts for individuals who they did not believe owned businesses.

In March 2021, SBA issued an interim final rule that allowed those who file an IRS Form 1040, Schedule C to calculate their maximum loan amount using gross income rather than net income.⁹ The change reduced barriers to accessing the PPP for sole proprietors, independent contractors, and self-employed individuals. The maximum loan amount for a Schedule C business with no employees remained \$20,833.

Based on our analysis of the PPP loan data, many of the Schedule C loans were made by lenders that rely exclusively on third-party loan processing or software platform vendors they hire to complete loan processes. These vendors do not often have a relationship with SBA.

Seven of the top 15 lenders, based on 2021 PPP volume, made over 2.4 million loans, or more than 18,000 loans a day, between January 2021 and May 2021. These lenders made

⁸ Public Law 116-142 Sec. 3 (c)(1).

⁹ 86 FR 13149.

fewer than 22,000 PPP loans combined in 2020. These seven lenders included financial technology (fintech) lenders, Community Development Financial Institutions, and Small Business Lending Companies.

We believe that these lenders and their reliance on third-party vendors will present SBA with several challenges moving forward. Within the context of the PPP eligibility and forgiveness process, we believe it is important for SBA to focus targeted efforts on these types of loans and review appropriate documentation to ensure these smaller loans were made to eligible businesses and minimize the losses associated with forgiveness of fraudulent loans.

Analysis of Agency Response

SBA management provided formal comments to the draft report, which are included in their entirety in Appendix II. Management agreed with the finding and recommendation, and the information provided will resolve the recommendation. We considered management's comments when preparing this final report.

Summary of Actions Necessary to Close the Recommendation

The following section details the status of our recommendation and the actions necessary to close it.

Recommendation 1

Develop a plan to ensure remaining forgiveness reviews and remittances are completed within 90 days as required by the CARES Act.

Status: Resolved

SBA management agreed with the recommendation, stating it implemented process improvements and policy changes that streamlined the loan review process. SBA management stated that 85 percent of manual forgiveness reviews completed in 2021 were processed in 90 days or less. The remaining 15 percent took longer than 90 days because of compliance or eligibility issues. SBA will continue to be cautious and deliberate when reviewing higher-risk loans and loans where the loan documentation or any other information indicates that the borrower may be ineligible for a PPP loan, loan amount, or loan forgiveness. This recommendation is resolved and can be closed when SBA provides evidence that the stated process improvements and policy changes have been implemented. SBA must also provide evidence that those changes have been effective in ensuring reviews and remittances are completed within 90 days, as required by the CARES Act, to the greatest extent possible. In subsequent correspondence, SBA agreed to May 31, 2022 as the final action date for this recommendation.

Appendix I: Objectives, Scope, and Methodology

Objectives

Our objective was to assess SBA's processes for reviewing Paycheck Protection Program loans for eligibility and forgiveness. To answer our objective, we reviewed laws, regulations, and requirements governing PPP loan eligibility and forgiveness; reviewed SBA's processes and procedures for PPP loan eligibility and forgiveness reviews; and interviewed key personnel responsible for overseeing the loan review process.

Our scope of work covered March 2020 through May 2021.

We interviewed officials from the Office of Capital Access and conducted walkthroughs with SBA staff who perform manual loan reviews. We obtained and reviewed all pertinent federal, departmental, and SBA specific regulations, policies, procedures and guidance, including the CARES Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, Economic Aid Act, IFRs, FAQs, Procedural Notices, program forms, and policies and procedures for conducting loan reviews that pertained to the PPP.

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

Use of Computer-Processed Data

We relied on information from SBA's Mainframe Loan Accounting System, E-Tran, Forgiveness Platform, and data from the Office of Performance and Systems Management to conduct our analyses. We conducted numerous analyses of PPP data to determine if SBA's reported data was reliable.

Prior OIG reports determined that certain elements of SBA's PPP data were not reliable because they were inaccurate, incomplete, or both. Specifically, we found that job statistics were inaccurate and incomplete; underserved market data was incomplete; and the North American Industry Classification System code data was incomplete.

We previously provided SBA recommendations in the relevant reports to address the identified data reliability issues. We believe the data elements used in this report are sufficiently reliable to support our report conclusion.

Appendix II: Management Comments

SBA RESPONSE TO EVALUATION REPORT



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Date: **January 19, 2022**

From: **Jihoon Kim**
Director **JI KIM**
Office of Financial Program Operations

Digitally signed by JI KIM
Date: 2022.01.25 11:46:06 -05'00'

To: **Hannibal "Mike" Ware**
Inspector General
Office of the Inspector General

Subject: OIG Draft Report – Evaluation of SBA’s Paycheck Protection Program Loan Review Processes (Project 21005)

OIG Recommendation:

We recommend that SBA develop a plan to ensure remaining forgiveness reviews and remittances are completed within 90 days as required by the CARES Act.

SBA Response:

SBA agrees with the recommendation. SBA designed a loan review process to maximize program integrity and optimize use of SBA’s loan review resources, considering the challenges posed by the volume of PPP loans and the statutory timeframe for reviews. As OIG detailed in its audit report, SBA experienced delays during 2020 in beginning manual reviews that negatively impacted SBA’s compliance with the 90 day deadline for completing forgiveness reviews. Since the time that OIG’s field work for this audit report was completed, SBA has implemented process improvements and policy changes that have streamlined the loan review process and led to improved forgiveness processing times and SBA compliance with the 90 day statutory deadline.

In fact, 85% of manual forgiveness reviews completed in 2021 were processed in 90 days or less. An analysis of manual review data will demonstrate that SBA forgiveness processing times continue to improve as older inventory is completed. The remaining 15% took longer than 90 days because of a potential compliance or eligibility issue that needed to be researched and resolved before SBA could finalize a review. While SBA strives to complete manual forgiveness reviews as quickly as possible, SBA will continue to be cautious and deliberate when reviewing higher-risk loans and loans where the loan documentation or any other information indicates that the borrower may be ineligible for a PPP loan, or may be ineligible to receive the loan amount or loan forgiveness amount claimed by the borrower.