



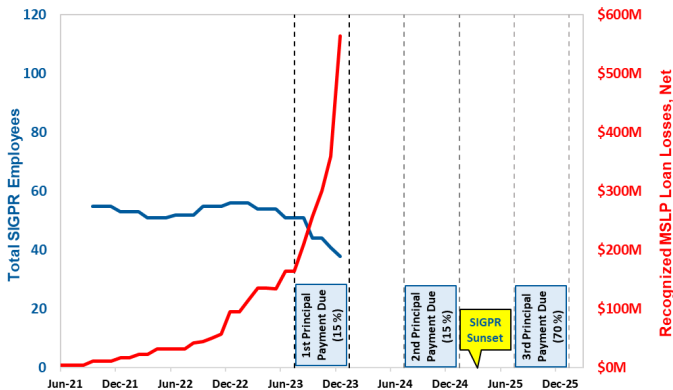
# Office of the Special Inspector General for Pandemic Recovery

SIGPR continues to keep Congress, the Department of the Treasury and other stakeholders aware of an impending crisis in the programs created in March 2020 via the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

For both the Main Street Lending Program (MSLP) and Treasury’s Direct Loan Program, **SIGPR notes an alarming rate of defaults by borrowers who are failing to pay even the interest payments on the loans.**

As a result, SIGPR is increasingly concerned that the default rate will grow exponentially in Years 3 through 5 of the MSLP as principal comes due. Principal payments were due starting in July 2023 through January 2024, depending on the loan origination date.

On January 10, 2024, the Federal Reserve reported its MSLP loan loss figure of \$564 million as of December 31, 2023. The loan loss figure has steadily increased over the past 6 months since the borrowers’ initial MSLP principal payments became due. The actual MSLP loan loss figure was \$400 million less (\$164 million) as of June 30, 2023.



MSLP Loan Losses Increasing as SIGPR Cuts Staff Ahead of Sunset; Source: SIGPR. Data current as of 12/31/2023

This impending crisis of loan defaults comes as SIGPR prepares to sunset.

**The MSLP 70% balloon payments are due in 2025, which will likely trigger significant borrower loan defaults after SIGPR sunsets.**

**SIGPR has surveyed every MSLP and Direct loan and reviewed and/or investigated 1,216 of the 1,830 MSLP loans.**

**MAIN STREET LENDING PROGRAM (MSLP) –** MS Facilities, LLC is a Special Purpose Vehicle that was established by the Federal Reserve (under Section 13 (3) of the Federal Reserve Act) with the Treasury Secretary’s approval.



\*Treasury has guaranteed \$16.5 billion of this amount

### Loan Terms:

MSLP loans cannot be reduced through loan forgiveness and borrowers are required to provide certain financial information (quarterly/annually).

- Interest payments **deferred Year 1**
- **Principal payments** are deferred for two years:
  - **15%** due end of **Year 3**
  - **15%** due end of **Year 4**
  - **Balloon payment of 70%** due at maturity - **end of Year 5 (as SIGPR Sunsets)**

Despite these extremely favorable loan terms, SIGPR is already noting defaults by borrowers who are failing to make interest payments on the loans.

**DIRECT LOAN PROGRAM - CARES Act, Section 4003**, allocated up to **\$46 billion** for Treasury to directly provide loans and loan guarantees through December 31, 2020.

- 274 applications submitted
- Treasury executed 35 loans – \$2.7 billion in assistance.



\$25 billion authorized for passenger air carriers and certain related businesses.



\$4 billion authorized for cargo air carriers.



\$17 billion authorized for businesses critical to maintaining national security.

Treasury made **35 loans** valued at **\$2.7 billion**, 21 of which are still outstanding valued at \$953 million. These outstanding loans have **maturity dates** ranging from **September 2024 through November 2025.**

- All direct loans had deferred interest for one year.

- Principal and payment-in-kind interest deferred until maturity, prepayment at any time, and a balloon payment at maturity.
- As of November 1, 2023, Treasury has reported that **ten Direct Loans** valued at **\$775 million** are in default.

### SIGPR's Interim Report to Treasury

On September 14, 2023, SIGPR issued an interim report to Treasury based on MSLP loan information obtained from a **review of 47 lender banks** holding **1,094 MSLP loans** valued at **\$10.2 billion**.

#### *Summary of Responses Received Compared to All MSLP Loans*

	Subpoena Responses	MSLP Universe	% of MSLP Universe
Number of Banks	47	319	15%
Number of Loans Issued	1,094	1,830	59.8%
Dollar Value of Loans Issued	\$10,224,112,602	\$17,459,024,461	58.6%

#### *Summary of 47 Subpoena Responses*

Subpoena Criteria	Count	\$ Loan Value (rounded)
Defaults	74	\$878.5 million
Delinquent Interest Payments	25	\$121.2 million
Delinquent Financial Reporting	215	\$1.1 billion
Impaired Loans	34	\$228.9 million
Material Misrepresentation	5	\$66.9 million
<b>Combined Reported Issues*</b>	<b>339</b>	<b>\$2.3 billion (actual)</b>
Paid Off	283	\$2.9 billion

\*Some loans had issues reported in multiple categories.

SIGPR's latest interim report on MSLP loan losses, issued on November 7, 2023, detailed its review of the loans that comprised the MSLP's \$164 million in actual loan losses as of July 31, 2023. SIGPR found that 49 percent of the loans and 44 percent of the loss dollars had borrowers under investigation for alleged fraud.

SIGPR resources dedicated to oversight of CARES Act money:

- SIGPR has seasoned federal prosecutors, investigators, and auditors.
- SIGPR provides exceptional service to the taxpayers despite a lean budget. SIGPR received an appropriation of \$25 million in March 2020 for its initial five-year term but received zero funding in FY 2021. In FY 2022, SIGPR received \$8 million to supplement this no-year

start-up funding, and an additional \$12 million for FY 2023.

- SIGPR is investigating and auditing numerous loans that mature as SIGPR sunsets in March 2025.

SIGPR has **developed 91%** of its **investigative cases proactively** rather than waiting for tips or defaults and is investigating cases nationwide with **potential fraud** totaling more than **\$582 million**.

- SIGPR has opened a total of 72 cases, of which 49 cases remain pending, with at least 130 potential defendants.
- **94%** of SIGPR's investigations involve a **combination of MSLP, Payroll Protection Program, and Economic Injury Disaster Loan Program fraud** (double and triple dippers).
- SIGPR's investigations have thus far resulted in 21 federal indictments, 21 arrests, 4 guilty pleas, and 4 sentencings which have generated more than **\$11.9 million in court ordered restitution, \$9.8 million in seizure/forfeiture orders, and a \$350,000 civil settlement.**
- **\$20.8 million** in MSLP loans have been repaid following notification of an investigation.
- Recently, multiple arrests were made in connection with a complex fraud scheme representing over **\$52 million in alleged fraud loss.**
- Two defendants were recently sentenced to **6 years in prison** and ordered to pay over **\$7.6 million in court ordered restitution.**
- 22 recommendations for Suspension and Debarment have been referred to Treasury.

As part of its oversight, SIGPR audited Treasury's process in approving a \$700 million direct loan to a business identified as being critical to national security. In another project, SIGPR audited how Treasury monitors borrowers' compliance with their Direct Loan requirements. SIGPR audited an airline's compliance with its direct loan agreement and is currently auditing a national security business to determine its compliance with its direct loan terms.

SIGPR also reviewed 16 borrowers' Validation Memoranda, which are documents that Treasury created to confirm that loan applicants submitted all required documentation and met other criteria. A roll-up report of all 16 attestation reviews showed that one Validation Memorandum contained material deficiencies and this loan application should not have been moved forward to the underwriting process. Ten other Validation Memoranda contained minor discrepancies.