



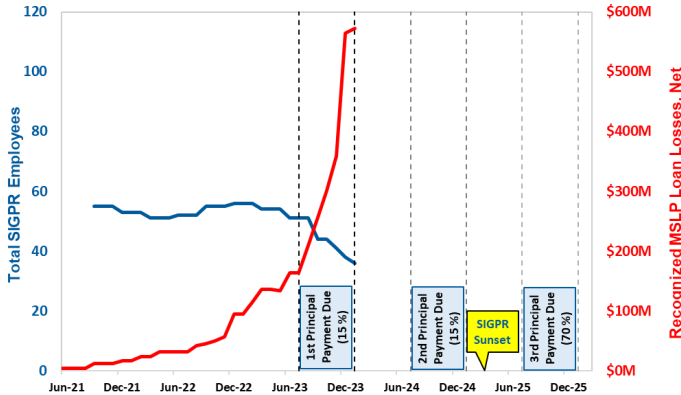
Office of the Special Inspector General for Pandemic Recovery

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

SIGPR notes an **alarming rate of defaults** by borrowers who are **failing to pay** even the **interest payments** on the loans for both the Main Street Lending Program (MSLP) and Treasury's Direct Loan Program. Now that initial MSLP principal payments have become due, loan losses have increased dramatically.

On February 13, 2024, the Federal Reserve reported **MSLP loan losses of \$572 million** as of **January 31, 2024**. Loan losses have **drastically increased** by over \$400 million in the **past 7 months** since the borrowers' initial MSLP principal payments became due starting in July 2023 through January 2024. This impending crisis of loan defaults comes as **SIGPR begins to sunset**.

MSLP Loan Losses Increasing as SIGPR Sunsets



Source: SIGPR. Data is as of 1/31/2024

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 recipient 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)**

DIRECT LOAN PROGRAMS - CARES Act, section 4003, allocated up to \$46 billion for Treasury to provide loans and loan guarantees through December 31, 2020 –

- \$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 received 274 applications and made 35 loans valued at \$2.7 billion. Currently, **21 loans** valued at **over \$211 million** are outstanding. These outstanding loans have **maturity dates** ranging from **September 2024 through November 2025**.

- All direct loans deferred interest for one year.
- Principal and payment-in-kind interest deferred until maturity, prepayment allowed at any time, and a balloon payment at maturity.
- Treasury reports that **10 direct loans** valued at **over \$225 million** are in default as of **February 1, 2024**. On February 5, 2024, Yellow Corp.'s bankruptcy estate paid the remaining balance of

its loan which reduced total outstanding loan amounts by \$186 million.

- Treasury also recently noted that payment information was incorrectly reported in a few of its previous reports.

SIGPR RESOURCES DEDICATED TO CARES ACT OVERSIGHT

- 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 92%** of its **investigative cases proactively** rather than waiting for tips or defaults and is investigating cases nationwide with **potential fraud** totaling more than **\$578 million**.

- SIGPR has opened a total of 73 cases, of which 47 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 24 federal indictments/informations, 24 arrests, 6 guilty pleas, and 4 sentencing 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**.
- **\$21.1 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.



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