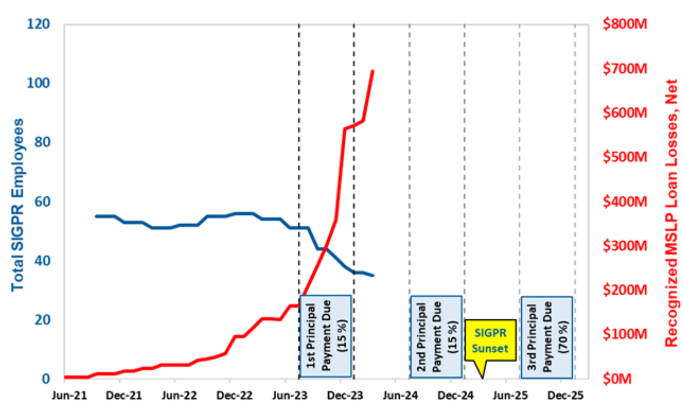
Office of the Special Inspector General for Pandemic Recovery

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 April 10, 2024, the Federal Reserve reported **MSLP loan losses of $695 million** as of **March 31, 2024**. Loan losses have **drastically increased** by over $530 million in the **past 8 months** since the borrowers' initial MSLP principal payments became due starting in July 2023 through March 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 3/31/2024

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 made 35 loans valued at $2.7 billion. Currently, **20 loans** valued at **over $212 million** are outstanding. These outstanding loans will **mature in October and 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 **9 direct loans** valued at **over $40 million** are **in default** as of **April 1, 2024**.
- 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 **$590 million**.

- SIGPR has opened a total of 74 cases, of which 43 cases remain pending, with at least 130 potential defendants.
- **96%** 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 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**.
- **$30.1 million** in MSLP loans have been repaid following notification of an investigation.
- Recently, a defendant was charged in a $10 million COVID-19 Relief fraud scheme.
- Multiple arrests were made in connection with a complex fraud scheme representing over **$52 million in alleged fraud loss**.
- Two defendants were sentenced to a total of **6 years in prison** and ordered to pay over **$7.6 million** in **court ordered restitution**.
- A defendant was recently sentenced to 20 months in prison for fraud charges related to the MSLP.
- This past fall, SIGPR was recognized for its investigative work at the CIGIE Annual Awards Ceremony. The ceremony honored the outstanding achievements throughout the IG community. The case involved a defendant convicted for a $2.6 million COVID-19 Relief fraud scheme, resulting in over seven year incarceration.
- 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.

Help fight fraud, waste, and abuse

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