



# Office of the Special Inspector General for Pandemic Recovery

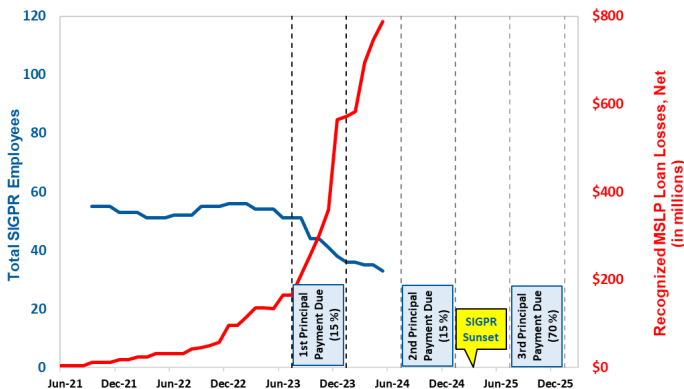
SIGPR continues to keep the Department of the Treasury, Congress, and other stakeholders aware of an impending crisis in the programs created in March 2020 via the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

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 June 10, 2024, the Federal Reserve reported **MSLP loan losses of \$788 million** as of **May 31, 2024**. Loan losses have **drastically increased** by over \$620 million in the **past 10 months** since the borrowers’ initial MSLP principal payments became due starting in July 2023 through May 2024. This impending crisis of loan defaults comes as **SIGPR prepares to sunset on March 28, 2025**.

## WHO WILL BE ON WATCH?

**MSLP Loan Losses Increasing as SIGPR Employee Resources Decreasing**



Source: SIGPR. Data is as of 5/31/2024.

## **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 **10 direct loans** valued at **over \$43 million** are **in default** as of **May 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 received an appropriation of \$25 million in March 2020 for its initial five-year term but received zero funding in FY 2021. SIGPR received \$8 million in FY 2022, \$12 million in FY 2023, and \$11.8 million in FY 2024.
- SIGPR is investigating and auditing numerous loans that mature as SIGPR sunsets in March 2025. These cases will be jeopardized unless SIGPR receives an extension.
- SIGPR has issued 236 IG subpoenas in support of its mission to oversee CARES Act funds.

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 **\$558 million**.

- SIGPR has opened a total of 76 cases, of which 41 cases remain pending, with at least 130 potential defendants.
- **95%** of SIGPR's **investigations involve a combination of MSLP, Payroll Protection Program, and Economic Injury Disaster Loan Program fraud** (double and triple dippers).
- Through its participation in the DOJ COVID Fraud Task Force's Forfeiture Subcommittee, SIGPR has assisted the U.S. Postal Inspection Service and the U.S. Secret Service over the last two years in recovering over \$18,000,000 in stolen PPP funds that were seized from financial institutions in over 1400 separate accounts.
- SIGPR's investigations have thus far resulted in 43 federal indictments/informations, 43 arrests, 7 guilty pleas, and 4 sentencings which have generated:
  - **\$9.8 million in seizure/forfeiture orders;**
  - **More than \$11.9 million in court ordered restitution; and**
  - **A \$350,000 civil settlement.**
- **\$36.8 million** in MSLP loans and CARES Act funding have been **repaid** following notification of an investigation. Over **\$58.9 million in financial outcomes**.
- Of the 41 open cases, 28 cases are in the mid to late stages of the investigation with several indictments and guilty pleas pending.

- The 28 cases make up a grand total of more than \$499 million in CARES Act funding.
- Recently, 17 individuals were arrested for their involvement in a Pandemic Unemployment Benefit fraud scheme, representing over \$340,000 in alleged fraud loss.
- A defendant was charged in an over **\$10 million** MSLP and COVID-19 relief fraud scheme.
- **15 individuals** were **arrested** 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 incarceration** for fraud charges related to the MSLP and PPP.
- In another case, a defendant was convicted in a **\$2.6 million** COVID-19 relief fraud scheme, resulting in an over **7-year sentence**.
- 22 recommendations for Suspension and Debarment have been referred to Treasury.

SIGPR's oversight efforts also include **audits of:**

- Treasury's process in approving a **\$700 million direct loan** to a business identified as being critical to national security.
- Treasury's **process to monitor borrower compliance** with their direct loan requirements.
- An **airline's** and a **national security business's compliance** with the terms and conditions of their respective direct loan agreements.

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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