



Office of the Special Inspector General for Pandemic Recovery

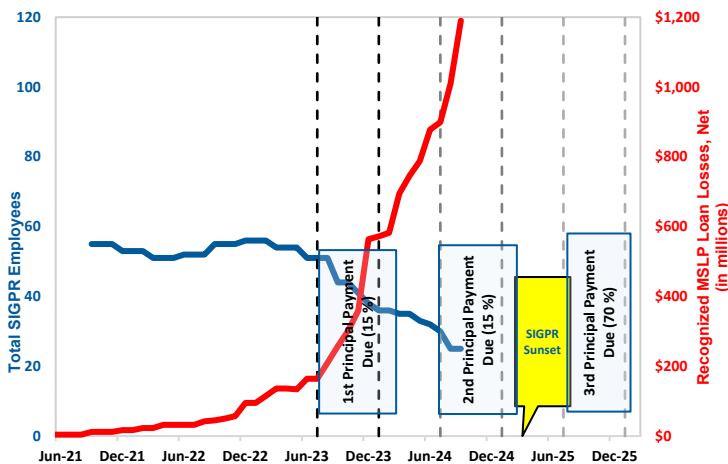
SIGPR continues to keep the Department of the Treasury, Congress, and other stakeholders aware of an impending crisis in the programs created in March 2020 via the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

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 November 12, 2024, the Federal Reserve reported **MSLP loan losses of \$1.23 billion** as of **October 31, 2024**. Loan losses have **drastically increased** by over \$1 billion in the **past 16 months** since the borrowers' initial MSLP principal payments became due starting in July 2023 through October 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 10/31/2024.

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 \$16.6 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, **19 loans** valued at **over \$206 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 \$44 million** are in **default** as of **November 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

- **Return On Investment (ROI) - Since 2020, SIGPR has over \$187.1 million in financial results, surpassing SIGPR's total allocated budget by 300%.**
- SIGPR has seasoned federal prosecutors, investigators, and auditors.
- 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 293 IG subpoenas in support of its mission of overseeing CARES Act funding.

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 **\$577 million**.

- SIGPR has opened a total of 83 cases, of which 42 cases remain pending, with at least 130 potential defendants.
- **90%** of SIGPR's investigations also involve a combination of **MSLP, Payroll Protection Program (PPP), and Economic Injury Disaster Loan Program fraud** (double and triple dippers).
- SIGPR's investigations have thus far resulted in 65 federal indictments/informations, 2 criminal complaints, 48 arrests, 27 guilty pleas, and 4 sentencing which have generated:
 - **\$28.4 million seizure/forfeiture orders;**
 - **More than \$121.5 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.
- Of the 42 open cases, 28 cases are in the mid to late stages of the investigation, with several indictments and guilty pleas pending. **Over 70% of all MSLP investigations are in default.**

Case Activity

- Recently, a Telecom Company and its CEO/owner **pled guilty** in federal court in connection with a multi-year fraud scheme

involving **over \$128 million** from federal programs and CARES Act programs.

- Recently, 16 of 17 **individuals arrested** for their involvement in a Pandemic Unemployment Benefit fraud scheme, representing over \$340,000 in alleged fraud loss have **pled guilty**.
- Recently, a defendant pled guilty in an **over \$10 million-dollar** MSLP and COVID-19 Relief fraud scheme.
- **Co-Founders of a PPP lender service provider were arrested** for their involvement in a large scale COVID-19 fraud scheme. **Four were arrested, 2 have pled guilty.**
- **15 individuals** were **arrested** in connection with a complex fraud scheme representing over **\$52 million in alleged fraud loss**. One has pled guilty another has filed a guilty plea with the court.
- **2 defendants** were sentenced to a total of **6 years in prison** and were ordered to pay over **\$7.6 million in court ordered restitution**.
- A defendant was sentenced to **20 months incarceration** for fraud charges related to the MSLP and PPP.
- In another case, a defendant was sentenced in a **\$2.6 million** fraud scheme, resulting in over **7 years incarceration**.

Suspension and Debarment

- Referrals to Treasury resulted in 24 Suspensions and 7 Debarments.

SIGPR's oversight efforts also included 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 loan agreements.



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Email: hotline@sigpr.gov
Phone: (202) 927-7899