

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2561 Rayburn House Office Building
Washington, DC 20515-6515

July 21, 2023

The Honorable Isabella Casillas Guzman
Administrator
U.S. Small Business Administration
409 3rd Street SW
Washington, D.C. 20416

Dear Administrator Guzman:

On June 29, 2023, the House Committee on Small Business (the Committee) invited you to testify at the July 13, 2023, hearing with the Small Business Administration's (SBA) Inspector General (IG) Hannibal "Mike" Ware to discuss the recently released SBA and IG reports on fraud within SBA's COVID lending programs.¹ Given the \$164 billion discrepancy between these two reports, it was vital to have all parties in the same room to discuss potential fraud of this magnitude.² While the Committee would have preferred to hear from you in person at the hearing, in lieu of your absence, we write to request answers to questions Committee members would have posed to you during the hearing and further justification for the discrepancy between the reports.

The SBA report states that the SBA began its review with \$400 billion in pandemic lending that it believed required additional scrutiny.³ Of that, the SBA found that there was just \$36 billion in *likely* fraudulent loans actually disbursed, resulting in a three percent fraud rate across all disbursements.⁴ Roughly \$24 billion of that—or 6.3 percent—was *likely* fraudulent in the COVID-EIDL program, representing 66 percent of all fraud SBA identified in its report.⁵ The likely fraud within the PPP program was approximately \$7.4 billion, fraud within the Restaurant Revitalization Fund (RRF) program is likely around \$286 million, and fraud within the Shuttered Venues Operators Grant (SVOG) program totaled approximately \$146 million.⁶ The SBA concluded these figures after engaging in 3.4 million human-led reviews of loans in its portfolio, equating to approximately 3,000 reviews completed per day.⁷

¹ U.S. SMALL BUS. ADMIN., PROTECTING THE INTEGRITY OF THE PANDEMIC RELIEF PROGRAMS (Jun. 27, 2023).

² *Id.* at 6 (Jun. 27, 2023); U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., REP. 23-09, COVID-19 PANDEMIC EIDL AND PPP LOAN FRAUD LANDSCAPE, 11 (Jun. 27, 2023).

³ U.S. SMALL BUS. ADMIN., PROTECTING THE INTEGRITY OF THE PANDEMIC RELIEF PROGRAMS, 6 (Jun. 27, 2023).

⁴ *Id.*

⁵ *Id.* at 13.

⁶ *Id.* at 13-14.

⁷ U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., REP. 23-09, COVID-19 PANDEMIC EIDL AND PPP LOAN FRAUD LANDSCAPE, 27 (Jun. 27, 2023).

The SBA's conclusion of just \$36 billion in fraud massively differs from the findings within the OIG's report. The subject matter investigatory experts at the OIG found \$200 billion in *potential* fraud in its review of \$650 billion in flagged loans.⁸ In our hearing, IG Ware expressed confidence in OIG's fraud estimate and skepticism of the SBA's fraud report.⁹ Given the large discrepancy between OIG and SBA's perceptions, the Committee seeks to better understand the analysis the SBA used to determine the amount of fraud at issue.

Accordingly, the Committee writes today requesting additional information about the SBA's estimations of fraud within the COVID lending programs. Please provide answers to the following questions as soon as possible but no later than August 4, 2023:

1. What differences in method, analysis, and procedure (other than not considering partial repayment as an indicator of legitimacy) created this large discrepancy in the OIG and SBA reports?
2. In making its fraud estimate, did SBA utilize data that SBA OIG did not have access to?
3. Why do you think that the SBA is better able to produce a more accurate fraud estimate than the OIG?
4. On average, how long did SBA reviewers spend per loan on the 3.4 million human-led reviews?
 - a. What were the criteria used by reviewers to determine whether a loan was likely to be fraudulent?
 - b. Were reviewers assessing individual loans, or rather batches of loans with similar flags?
 - c. Who at the SBA is performing these reviews?
 - d. What is their training?
5. The SBA stated in its report that 6.3 percent of the COVID EIDL program was likely to be fraudulent.¹⁰ The SBA's report also states that its improper payments rate will be "well below the statutory threshold of 10 percent."¹¹
 - a. What is the total improper payment rate for the COVID EIDL program?

⁸ *Id.* at 11; *Stolen Taxpayer Funds: Reviewing the SBA and OIG Reports of Fraud in Pandemic Lending Program*, 118th Cong. 17 (2023) (Questioning by Chairman Roger Williams) (In response to Chairman Williams asking what the total value of loans the OIG reviewed, IG Ware responded "\$650 Billion").

⁹ *Stolen Taxpayer Funds: Reviewing the SBA and OIG Reports of Fraud in Pandemic Lending Program*, 118th Cong. 17 (2023) (Questioning by Representative Maria Salazar) (where IG Ware stated "It is evident (the SBA) cannot prove that case based on their response to the (OIG's) report.").

¹⁰ U.S. SMALL BUS. ADMIN., PROTECTING THE INTEGRITY OF THE PANDEMIC RELIEF PROGRAMS, 13-14 (Jun. 27, 2023).

¹¹ *Id.* at 18.

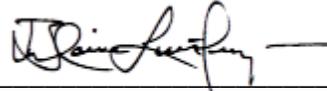
12. From the OIG's report and testimony it appears that the SBA struggled overseeing the few financial technology (FinTech) companies involved in its COVID lending programs. How then does the SBA have confidence it can effectively oversee FinTechs more broadly?

To schedule the delivery of your response or ask any related follow-up questions, please contact Committee on Small Business Majority Staff at (202) 225-5821. The Committee on Small Business has broad authority to investigate "problems of all types of small business" under House Rule X. Thank you in advance for your cooperation with this inquiry.

Sincerely,



Roger Williams
Chairman
Committee on Small Business



Blaine Luetkemeyer
Vice Chairman
Committee on Small Business



Pete Stauber
Member of Congress
Committee on Small Business



Dan Meuser
Member of Congress
Committee on Small Business



Beth Van Duyne
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Maria Salazar
Member of Congress
Committee on Small Business



Tracey Mann
Member of Congress
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Member of Congress
Committee on Small Business

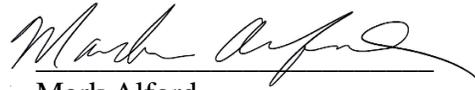
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Member of Congress
Committee on Small Business



Mark Alford
Member of Congress
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Wesley Hunt
Member of Congress
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Nick LaLota
Member of Congress
Committee on Small Business

cc: The Honorable Nydia M. Velasquez, Ranking Member
Committee on Small Business