MEMORANDUM

To: Members, Subcommittee on Innovation and Workforce Development
From: Jason Crow, Chairman
Date: September 24, 2020
Re: Subcommittee Hybrid Hearing: “Paycheck Protection Program: An Examination of Loan Forgiveness, SBA Legacy Systems, and Inaccurate Data”

The House Small Business Innovation and Workforce Development Subcommittee will meet for a hybrid hearing titled, “Paycheck Protection Program: An Examination of Loan Forgiveness, SBA Legacy Systems, and Inaccurate Data” on Thursday, September 24, 2020 at 10:00 A.M., in Room 2360 of the Rayburn House Office Building.

The Small Business Administration (SBA) launched the Paycheck Protection Program (PPP) to provide an incentive for small businesses to keep their workers on the payroll. However, SBA’s legacy technology systems were not fully equipped to handle the unprecedented level of applicants, resulting in a number of technical issues with the implementation. Members of the Committee will have an opportunity to address these issues and the related concerns about the accuracy of the recently released PPP data, as well as learn more about SBA’s new system for PPP forgiveness.

Witness:
• Mr. Will Manger, Small Business Administration Chief of Staff and Associate Administrator for the Office of Capital Access, U.S. Small Business Administration, Washington, DC.

Background

On March 27, 2020, the Coronavirus, Aid, Relief, and Economic Security Act (CARES) was enacted into law, providing emergency assistance for small businesses and eligible nonprofits affected by the Coronavirus pandemic (COVID-19). The CARES Act established the Paycheck Protection Program (PPP), a new guaranteed loan program at the Small Business Administration (SBA) to help small businesses cover payroll and other expenses during the crisis, with 100 percent of the amount eligible for forgiveness if employers retain employees. Thus far, SBA lenders have processed 4.9 million loans totaling more than $518.3 billion.1

1 SMALL BUS. ADMIN., Paycheck Protection Report REP. (2020)
SBA rolled out the Paycheck Protection Program 9 days after the enactment of CARES. The expedited turn-around resulted in a lack of attention to important technical controls within the PPP portal. The day the portal launched; it went offline for four hours during which time lenders could not submit borrower’s applications. During the relaunch of the portal for the second round of PPP funding, the portal crashed again. The SBA’s technology systems were not able to handle the level of applicants. In a July 22nd hearing with SBA’s Deputy CIO, Mr. Cavallo shared that the SBA had to launch six new cloud-based systems in order to support the unprecedented level of demand. The SBA had to quickly upgrade and patch their legacy system in order to support PPP.

It is important to note that the SBA had been notified in a GAO report in 2014 that their legacy loan servicing system, E-Tran, would not be able to handle a large volume of applicants. “Without taking its experience with early application submissions after Hurricane Sandy into account in its disaster planning documents and analyzing the potential risk early submissions may pose for timely disaster response, SBA may be unprepared for a large volume of applications to be submitted quickly following future disasters, which may result in delays in loan funds for disaster victims,” the GAO wrote in its report.

There were issues found with the SBA’s Loan Management Accounting System and their loan servicing system, E-Tran. However, the SBA stated that instead of fixing E-Tran, a new technology system was being developed, SBA One, to replace E-Tran by 2015. Despite these assurances, E-Tran is still being used today and as the GAO predicted, E-Tran had difficulty processing the high level of applicants. E-Tran was a cumbersome tool to use for lenders, there was a lack of training on how to properly use the portal, and the data released from the tool contained inaccuracies.

Moving forward, Congress and the SBA must work together to ensure that the proper steps are taken to ensure that the same issues encountered during PPP loan applications do not occur during forgiveness.

**Current Issues**

**SBA Legacy Systems/E-Tran:**

E-Tran was not a system built to sustain the application levels of the coronavirus pandemic which was identified in a 2014 GAO report. The SBA relied on E-Tran, an electronic loan processing system, to process all of the PPP applications. There were several issues with the bandwidth and processing capacity of E-Tran at the launch and the re-launch of the PPP portal. Both times, E-Tran crashed and went offline causing issues for the lenders trying to submit applications and the borrowers who lost their place in the queue. Lenders stated that there were

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times when E-Tran would kick them out of the application mid-application without saving their work and other times where the application would freeze for extended periods of time.

During the July 22\textsuperscript{nd} hearing, Mr. Cavallo stated that there are currently plans to modernize E-Tran.\textsuperscript{5}

“The last thing we did is we approved a significant hardware investment to up the horsepower of the E-Tran system, but it is going to take time to modernize the system. It is a very complex financial system.”\textsuperscript{5}

**Inaccurate PPP Data:**

The legacy system, E-Tran, requires manual data entry and does not have proper internal controls which has led to inaccurate information regarding small businesses applying for PPP loans.

*Manual Data Entry*

E-Tran, the electronic loan processing system, requires that lenders manually fill in fields for borrowers requesting PPP loans. There are several fields that lenders have to fill out for each applicant including information such as, company size, street address, name, city, state, etc. An applicant fills out an application then the lender takes that application and manually inputs the data into another form. This cumbersome process forced lenders to pull all-nighters in order to input borrowers’ information into E-Tran (manually) which led to a high percentage of human error. Lenders stated that it took significant periods of time to get an application submitted into the system. After 5 hours, one lender reported successfully submitting only 7 out of 1,100 applications. The Committee plans to explore why the SBA did not have an automated process in place where the lender could submit the borrower’s application and the data fields auto-populate and what steps are being taken to ensure that the forgiveness application will include an accessible automated process for all lenders.

*Lack of Internal Controls for Data Accuracy*

The electronic loan processing system lacked basic internal controls to ensure data accuracy. For example, if a lender entered a street address, they could enter any value, and the system would accept it. This included incomplete addresses such as, “Main St” instead of “555 Main St”. There were even instances where the wrong data category was inputted into a field. An easy fix would have been to cross-reference the street addresses with the USPS database like so many e-commerce sites do to ensure that the loans were going to a real street address. The lack of controls led to several errors in the SBA’s released PPP data. Company names included names such as “New Applicant”, “NA”, “Self-Employed” which are not company names, yet these “businesses” received PPP loans.

*Greater Transparency of PPP Data*

On July 6\textsuperscript{th}, the SBA released public PPP data that included data categories such as business name, address, and loan amount, however, issues were quickly raised about the accuracy of the data. The SBA did not release how they arrived at the numbers reported and has not responded to letters requesting that information. The Washington Post reported that at least 226,000 small business loans were credited to the incorrect congressional district and an analysis of 4.9 million
loans indicated that many companies retained far more workers than they employ. Additionally, under the regular 7(a) program the SBA voluntarily collects demographic information, however, for PPP they did not—inhibiting Congress’s ability to accurately assess and track the impact of PPP loans on women, veteran and minority-owned small businesses, and the impact of the program on our constituents.

Forgiveness:

The SBA launched a new system, separate from E-Tran, for forgiveness applications that requires lenders to learn how to use a new system and to re-enter data that was already entered in the loan application.

New Forgiveness Portal

Small businesses have been contacting lending institutions since June in an effort to apply for forgiveness. SBA did not launch the forgiveness portal until August 10th and did not release guidance until [August 11th]. It fell on the lenders to provide resources and up-to-date information to the borrowers.

Lenders Have to Re-Enter Borrower Data

Lenders not only had to create forgiveness resources for borrowers but are also expected to re-input the same data that they previously entered for PPP applications. The SBA is requiring re-entry of information because the forgiveness portal is a separate system than the loan application portal and the SBA did not migrate the data over to the new system. Currently, there are two methods for inputting borrower information, manually or through an API. As of September 18, the Committee does not know of any financial institutions who have finalized their API successfully, meaning that lenders are having to manually enter forgiveness information. As detailed in the section “Inaccurate PPP Data”, manual entry has led to several inaccuracies within the PPP loan data.

Lack of Internal Controls for Data Accuracy

As with the PPP loan applications in E-Tran, the data fields in the forgiveness portal do not have internal controls to flag inaccurate data such as, an incorrect address or borrower name. Lenders have shared that there is not drop down or auto-fill feature to help them check the addresses. This could lead to forgiveness difficulties and could potentially delay a small business from receiving forgiveness.

Forgiveness Application Process (Lender POV)

One lender shared their experience with the forgiveness portal, they made the following observations.

1. Once they upload a document to the forgiveness application, they cannot delete the document or the draft. If lenders need to update the documents, they have to start the process from the beginning.

3 JASON CROW, NYDIA VELAZQUEZ, LET. PPP (2020)
2. The forgiveness portal notifies the lender when there is an error, however, the tool does not identify where the error is within the application.

These inefficiencies make the process incredibly time consuming for the lender, especially if they are entering in the information manually. In addition, the SBA and Treasury still have not provided a clear response to which documents they need from lenders which is highly concerning to both lenders and borrowers and the FAQs have not been updated since August 11th.4

**Duplicate Loans**

Duplicate loans have been a key issue with PPP loans, there are *still* small businesses who have been given duplicate loans that have not been cancelled or returned. The SBA has said little publicly about how they are addressing duplicate loans and what, in the electronic loan processing system, allowed duplicate loans to be distributed to small businesses. The SBA and Treasury has not released guidance about how they will ensure that forgiveness is not provided more than once for a small business or how they plan to address duplicate loans that have not been returned.

**IT Organization**

The new forgiveness system is one of several new technologies implemented throughout the coronavirus in order to handle the high demand of PPP loans and high traffic to the SBA website. During the July 22nd hearing, Mr. Cavallo, shed light on several of these systems however, he could not speak to PPP and EIDL specific systems. He shared that the Office of the Chief Information Officer (OCIO) does not have purview over all systems at SBA, specifically PPP systems.

*Role of the OCIO*

During the July 22nd hearing, the past Deputy CIO, Guy Cavallo, explained that the SBA has a decentralized approach to its IT organization and that data is siloed across the agency.

“If you asked our offices can you give me data for my district, we actually have to go to different systems to give you that data.” 5

The Office of the CIO has purview over only 37% of the IT systems at the SBA and IT spending is separated over 31 different offices, programs, and teams at the SBA. The technology systems used for PPP are under the Office of Capital Access, not the OCIO, which is under Mr. Manger’s purview so he will be able to answer questions that Mr. Cavallo was unable to. The OCIO also makes up less than half of SBA’s total IT spending and has been left out of key technology system development projects. For example, the OCIO was left out until the end of the Certify.gov project, instead US Digital Services worked directly with the Office of Management and Budget.6

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4 SMALL BUS. ADMIN., FAQ on PPP Forgiveness. (2020)
Conclusion

The Committee is concerned with SBA’s decentralized approach to its IT organization, which has resulted in duplicative systems, siloed data, and an inability to successfully implement new systems. The OCIO should be involved in all technology system projects, and replacing legacy systems like, E-Tran, should be a priority in order to avoid some of the technical issues that occurred with PPP loans down the road.

The new forgiveness system is a positive change, but only if financial institutions are successful in utilizing the API to decrease the level of manual data-entry. The SBA needs to ensure that all lenders, especially those with fewer resources, have the ability to access the API.