

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members of the Committee on Small Business

FROM: Committee Majority Staff

DATE: September 21, 2023

RE: Full Committee Hearing Titled: “Action Through Innovation: Private Sector Solutions to Recouping Stolen Pandemic Loan Funds.”

On **September 27, 2023, at 10:00 AM ET**, the Committee on Small Business will hold a hearing titled “**Action Through Innovation: Private Sector Solutions to Recouping Stolen Pandemic Loan Funds.**” The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to show how the SBA has failed to recoup fraudulent pandemic loans; highlight creative, private sector solutions that are available now that prevent and recoup fraud; and explore future fraud prevention and detection efforts.

I. Witnesses

- **Mr. Richard Breeden**, Chairman, Breeden Capital Management, LLC
- **Mr. JT Taylor**, Senior Director of Fraud Investigations and Operations, ID.me
- **Mr. Dean Zerbe**, National Managing Director, Alliantgroup
- **Ms. Linda Miller**, CEO, Audient Group, LLC

II. Background

Congress, through several pieces of legislation in response to the COVID-19 pandemic, tasked the Small Business Administration (SBA) with distributing a total of \$1.2 trillion in pandemic loan programs to aid American small businesses.¹ The SBA subsequently stood up the Paycheck

¹ See Generally The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), H.R. 748, 116th Cong. (2020); Paycheck Protection Program and Health Care Enhancement Act, H.R. 226, 116th Cong. (2020) (and subsequent additions to the PPP program), Consolidated Appropriation Act of 2021, H.R. 133, 116th Cong. (2020), the American Rescue Plan of 2021, H.R. 1319, 117th Cong. (2021), and the Inflation Reduction Act of 2022, H.R. 5376, 117th Cong., (2022).

Protection Program (PPP) and COVID Economic Injury Disaster Loan (COVID EIDL) programs based on its existing 7(a) and EIDL programs, respectively.²

These pandemic lending programs were enacted with relaxed fraud controls initially to get money quickly to businesses in need. However, this decision was made with the understanding that improperly disbursed funds would be recouped on the back end. Unfortunately, the level of fraud identified to date is far greater than lawmakers initially anticipated and the failure to adequately recoup these funds is troubling. The SBA OIG estimates that SBA disbursed over \$200 billion in potentially fraudulent COVID EIDL and PPP loans. This means that at least 17 percent—or nearly 1 in 5 of all COVID EIDL and PPP loans—were disbursed to potentially fraudulent actors.³

The private sector had a significantly better record in preventing fraud in the pandemic programs. The COVID EIDL program which administered \$400 billion solely through the SBA had an estimated \$136 billion in potential fraud (33 percent of total disbursed funds).⁴ In contrast, the PPP program, which administered \$800 billion through third party lending partners had about \$68 billion in fraud (8 percent of total disbursed funds).⁵ As the government looks to implement future lending programs, we must ensure that we are learning from the mistakes of the past and institute the best practices to detect fraud on the front end and ensure there are appropriate avenues to detect and persecute fraud cases once the programs have ended.

III. Conclusion

The OIG has publicly stated that they have almost 100 years of casework to properly examine the loans that have been flagged as being potentially fraudulent. To help alleviate this workload, we must look for innovative new ways to try to recoup some of these stolen funds. By listening to the private sector, we hope to hear about creative solutions to recoup some of these stolen pandemic funds. It is important to detect and prevent future fraud to ensure proper stewardship of American taxpayer funds.

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

³ *Id.*

⁴ *Id.* at 11.

⁵ *Id.*