United States Government Accountability Office
Report to Congressional Committees

December 2020

FINANCIAL ASSISTANCE

Lessons Learned from CARES Act Loan Program for Aviation and Other Eligible Businesses

Accessible Version

GAO-21-198

GAO Highlights

Highlights of GAO-21-198, a report to congressional committees

December 2020

FINANCIAL ASSISTANCE

Lessons Learned from CARES Act Loan Program for Aviation and Other Eligible Businesses

Why GAO Did This Study

The COVID-19 pandemic has resulted in catastrophic loss of life and substantial damage to the global economy, including the aviation sector. U.S. passenger air carriers have lost almost $20 billion and over 47,000 jobs in 2020, with losses forecast to continue into 2021.

In March 2020, Congress passed, and the President signed into law, the CARES Act, which provides over $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic, including businesses in the aviation sector.

The CARES Act contained a provision for GAO to review the loans provided under the Act. This report examines, among other things, eligible businesses' participation in the loan program and lessons learned from the program for Congress and Treasury.

GAO reviewed Treasury documents and data on applications received and loans executed; interviewed Treasury officials on the design and implementation of the program; and interviewed eight industry associations that represent the range of businesses eligible for loans, eight passenger air carriers, and other selected applicants to gather their views on the program.

GAO will continue to monitor and report on CARES Act assistance to the aviation industry. This oversight includes the loan program and another Treasury program—the Payroll Support Program—that provided assistance to certain aviation

View GAO-21-198. For more information, contact Heather Krause at (202) 512-2834 or krauseh@gao.gov.

What GAO Found

The CARES Act authorized up to $46 billion for the Department of the Treasury (Treasury) to make loans to aviation and other eligible businesses affected by the COVID-19 pandemic. Of the 267 applications submitted to the loan program, 35 loans providing $21.9 billion in assistance were executed. Treasury officials do not expect to make any additional loans before Treasury's authority to make loans expires.

Applications and Loans for CARES Act Loan Program for Aviation and Other Eligible Businesses, by Category in Statute

Type of business	Number of applications submitted	Assistance sought/available (billions of dollars)	Number of loans executed	Assistance provided (billions of dollars)
Passenger air carrier, repair station operator, and ticket agent	183	35 / 25	23	21.2
Cargo air carrier	10	0.8 / 4	1	0.002
National security business	74	2.6 / 17	11	0.7
Total	***267***	***38.3 / 46***	***35***	***21.9***

Source: GAO analysis of Department of the Treasury data | GAO-21-198

Note: Pub. L. No. 116-136, § 4003(b)(1)-(3).

Participation in the loan program varied across business types due to timing of decisions and other factors, according to stakeholders. Treasury prioritized applications from the largest passenger air carriers and executed loans with seven of them for nearly $20.8 billion. For other applicants, including smaller passenger air carriers and ticket agents, the amount of time Treasury took to evaluate their applications and other challenges affected the number of loans executed, according to selected industry associations.

Treasury's authority to make new loans under this program is set to expire in December 2020, and the loan program offers Congress and Treasury lessons for designing and implementing programs of this type in the future. For example:

- Multiple programs, or multiple paths within a program, may better accommodate businesses of varied types and sizes. It is difficult to implement a program quickly for a wide range of businesses. In addition, a loan program well suited to large, financially sophisticated applicants will not likely be well suited to smaller businesses.
- Setting and communicating clear program goals could better align lender and borrower expectations. Treasury viewed itself as a lender of last resort but did not state this view in published documents. This omission led to some applicants being surprised by parts of the process, such as when Treasury encouraged over a third of all applicants to apply to another loan program before continuing to pursue a loan from Treasury.
- Communicating clear timelines for action can also help align lender and borrower expectations. The lack of a published timeline resulted in frustration among some applicants when loans were not made more quickly.

Contents

Abbreviations

COVID-19	Coronavirus Disease 2019
DOD	Department of Defense
DOT	Department of Transportation
MSLP	Main Street Lending Program

Treasury	Department of the Treasury
YRC	YRC Worldwide

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

December 10, 2020

Congressional Committees

The Coronavirus Disease 2019 (COVID-19) pandemic has resulted in catastrophic loss of life and substantial damage to the global economy. Within the United States, there have been over 14-million cumulative reported cases of COVID-19 and over 253,000 reported deaths as of December 4, 2020, according to federal agencies. International flight restrictions, local quarantines, and a general fear of contracting and spreading the virus through air travel had a sudden and profound effect on passenger air carriers and the many aviation-related businesses that serve them. Earlier this year, the Federal Aviation Administration forecasted that the U.S. airline industry would see continued growth and earnings during 2020 and beyond. However, by April passenger traffic had fallen 96 percent compared to 2019, based on data reported by U.S. air carriers to the Department of Transportation (DOT). While traffic has rebounded somewhat since then, it remained down 64 percent in September 2020 as compared to the same month last year. U.S. passenger air carriers incurred operating losses of almost $20 billion during the first two quarters of 2020 and are forecast to continue these losses into 2021. They also have lost more than 47,000 jobs, with an estimated 122,000 jobs lost in the broader air transportation sector, according to the Bureau of Labor Statistics.

In response to the public health and economic crisis, Congress and the administration have taken a series of actions. Most notably, in March 2020, Congress passed, and the President signed into law, the CARES Act, which provides over $2 trillion in emergency assistance and health care response for individuals, families, and businesses affected by the COVID-19 pandemic.[1] Section 4003 of the CARES Act authorizes up to $46 billion for the Department of the Treasury (Treasury) to make loans and loan guarantees to support aviation and other eligible businesses.[2] The intent of these loans is to provide liquidity to eligible businesses that incurred losses as a result of the COVID-19 pandemic.

[1]Pub. L. No. 116-136, 134 Stat. 281 (2020).

[2]CARES Act, § 4003, 134 Stat. at 470.

Section 4026(f) of the CARES Act contains a provision for us to review the loans, loan guarantees, and other investments provided under section 4003 of the act.[3] This report examines:

- the extent to which Treasury put policies and procedures in place to evaluate applications for the loan program consistent with standards for internal control;
- the extent to which eligible aviation and other businesses participated in the loan program, and stakeholders' views on the factors that affected participation; and
- lessons learned from the loan program for Congress and Treasury.

We also examined whether Treasury took steps consistent with statutory requirements for implementing the loan program, such as publishing procedures within 10 days of the CARES Act's enactment. This information is presented in appendix I.

To determine if Treasury put policies and procedures in place to evaluate applications for the loan program that were consistent with standards for internal control, we reviewed Treasury documents such as internal evaluation procedures, financial tests to screen applications, and documents published on Treasury's website. We also interviewed Treasury officials to understand how Treasury designed the loan program and the application evaluation process. We found that the following components and principles of federal standards for internal control were significant to this objective:[4]

- Significant to this objective was the risk assessment component of internal control—specifically the principle that management should identify, analyze, and respond to risks related to achieving the defined objectives. We assessed Treasury's actions in light of this principle by interviewing Treasury officials about steps taken to identify and

[3]CARES Act, § 4026(f), 134 Stat. at 496. Section 4003 of the CARES Act also appropriated $454 billion for Treasury, in addition to any unused amounts appropriated for the loans to aviation and other eligible businesses, to support the Board of Governors of the Federal Reserve System in establishing emergency lending programs (or facilities) to provide liquidity to the financial system that provides lending to states, tribes, municipalities, and eligible businesses. GAO has also examined this funding, and is providing that information in a separate report.

[4]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 20, 2014).

respond to risks when designing the program. We also reviewed documents from Treasury on financial tests, advisors' roles, and other aspects of the program related to steps Treasury described taking to identify and respond to risks.

- The control activities component of internal control was also significant, in particular the principle that management should design control activities to achieve objectives and respond to risks. To assess Treasury's control activities in light of this principle, we reviewed internal guidance outlining procedures to evaluate applications and templates for recording decisions. We also interviewed Treasury officials responsible for overseeing the loan program's design to understand what control activities they developed, when they developed the activities, and how they documented the activities.
- Finally, the information and communication component of internal control was significant to this engagement. Specifically, that management should externally communicate the necessary quality information to achieve the entity's objectives. We assessed Treasury's published documents for the loan program and examples of communications to applicants. We interviewed Treasury officials to learn the methods used to communicate with applicants and external entities as well as the selected industry associations and applicants described below.

In addition, we compared the information from Treasury documents and interviews to four statutory requirements from the CARES Act. This included examining loan documents to determine whether Treasury stipulated CARES Act requirements in loan agreements.[5]

To assess the extent to which eligible aviation and other businesses participated in the loan program and identify stakeholders' views on the factors that affected their participation, we reviewed Treasury data and documents and spoke with selected loan applicants and industry associations that represent businesses eligible for loans. Treasury posted data and documents on executed loans on its website, which we analyzed to describe the amount of assistance provided and types of

[5]For example, under the CARES Act, loan recipients must agree to limit executive compensation and not pay dividends or make stock buy backs. CARES Act, §§ 4003(c)(2)(E)-(F), 4004, 134 Stat. at 471, 476.

businesses receiving loans.[6] In addition, Treasury provided data on the number and type of loan applications, the amount requested, and outcome (e.g., executed loan, rejected, withdrawn). We assessed the reliability of each data source by reviewing documents and interviewing knowledgeable agency officials, among other things. We determined that the data sources were sufficiently reliable for our purposes of describing the number and type of applications and loans.

We also interviewed eight industry associations about their members' levels of interest in the loan program, experiences working with Treasury, and any challenges faced applying for a loan. We selected associations to cover all types of businesses eligible for the loan program. To gather additional insights and examples from applicants' experiences with the loan program, we asked industry associations for recommendations on applicants to interview. We selected 11 applicants to interview, including 8 of the 10 major air carriers that had signed letters of intent for loans with Treasury, some of which did not go on to execute those loans. The information and viewpoints from these interviews cannot be generalized to all associations or applicants but offer insight into the issues covered in this report.

To determine lessons learned, we examined the information described above, including statutes, Treasury documents, and stakeholder interviews. We reviewed our past work on guiding principles for the federal government to provide assistance to the private sector, and we focused on three guiding principles most related to the initial design and implementation of a program to provide assistance.[7] We compared information gathered on the loan program to these guiding principles to identify what lessons warranted mention given the experience of the current loan program.

We conducted this performance audit from April 2020 to December 2020 in accordance with generally accepted government auditing standards.

[6]We analyzed information on the 35 loans Treasury executed as of November 13, 2020. According to Treasury officials, the agency did not anticipate executing any additional loans before its authority to make new loans expires on December 31, 2020. Therefore, throughout this report, we treat the 35 loans executed as of November 13, 2020, as the final number of loans executed through the loan program.

[7]GAO, *Ongoing Challenges and Guiding Principles Related to Government Assistance For Private Sector Companies,* GAO-10-719 (Washington, D.C.: Aug. 3, 2010). These principles include determining national interests and setting clear goals and objectives, coordinating actions on a global and comprehensive basis, and ensuring adequate transparency by establishing an effective communication strategy.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Under the CARES Act, Treasury is authorized to make loans and loan guarantees to ensure liquidity of eligible businesses. It authorized up to:

- $25 billion for passenger air carriers; businesses certified to perform inspection, repair, replace, or overhaul services; and ticket agents;[8]
- $4 billion for cargo air carriers; and
- $17 billion for businesses critical to maintaining national security.[9]

For a borrower to be eligible for assistance, Treasury must determine that the borrower meets several criteria as specified in statute. Among the key eligibility criteria, first, is that credit is not reasonably available elsewhere at the time of the transaction.[10] This criterion is similar to a policy set for many federal credit programs—that the federal government be a lender of last resort and should encourage use of private credit markets.[11] Second, Treasury must determine that the borrower has incurred or is expected to

[8]Businesses that perform inspections and maintenance on aircraft are commonly referred to as repair station operators. Independent repairs stations, not owned or affiliated with air carriers or equipment manufacturers, perform a range of services such as engine repair or major airframe maintenance and alteration. Ticket agents are persons (except an air carrier or employee of an air carrier) that as a principal or agent sells, offers for sale, negotiates for, or holds itself out as selling, providing, or arranging for, air transportation. 49 U.S.C. § 40102(45).

[9]The CARES Act did not define these businesses. On April 10, 2020, Treasury defined *businesses critical to maintaining national security* as either those that have the highest priority contract under the Defense Priorities Allocations System regulations or those that operate under a top-secret facility security clearance under the National Industrial Security Program regulations. Treasury stated that firms that do not meet either of these definitions may still be considered for loans, however. We refer to these as national security businesses.

[10]CARES Act, § 4003(c)(2)(A), 134 Stat. at 471.

[11]Office of Management and Budget, *Circular No. A-129, Policies for Federal Credit Programs and Non-tax Receivables* (January 2013).

incur losses due to the pandemic, such that the continued operation of the business is jeopardized. Third, only U.S.-incorporated businesses are eligible to receive assistance.

In making the loans, Treasury is required to ensure specific terms and conditions are agreed to by the borrower in exchange for the loan. Key terms and conditions include the following:[12]

- The loan or loan guarantee is sufficiently secured or is made at a rate that (i) reflects the risk of the loan or loan guarantee and (ii) to the extent practicable, is not less than an interest rate based on market conditions for comparable obligations prevalent before the COVID-19 outbreak.
- The borrower must not pay dividends or make other capital distributions with respect to its common stock until 12 months after the date the loan or loan guarantee is no longer outstanding.
- Until September 30, 2020, the borrower must maintain its employment levels as of March 24, 2020, to the extent practicable and, in any case, it must not reduce its employment levels by more than 10 percent from the levels as of March 24, 2020.

The CARES Act also requires that Treasury receive certain financial protections in making the loan.[13]

While the CARES Act specified certain eligibility requirements and terms and conditions, it also gave the Secretary of the Treasury substantial discretion in designing and implementing certain aspects of the loan program. For example, in making loans and loan guarantees, Treasury has the authority to set the form, terms and conditions, and other requirements that Treasury deems appropriate. Additionally, Treasury sets the terms and conditions for financial protections to the government, such as the terms of any warrant or equity interest. The CARES Act specified that Treasury had to publish application procedures for the program within 10 days of enactment and issue and publish reports on

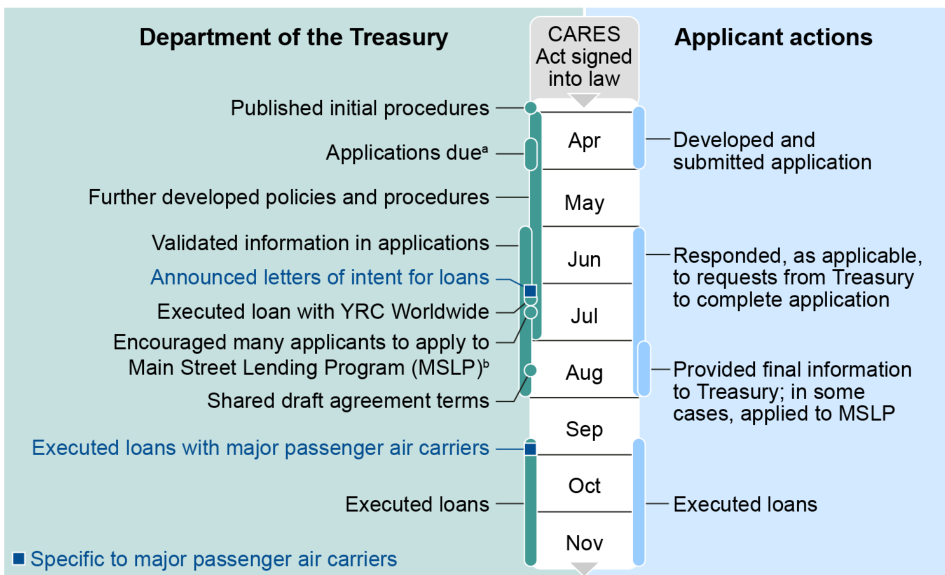
[12]CARES Act, § 4003(c)(2)(C), (F)-(G), 134 Stat. at 471.

[13]CARES Act, § 4003(d), 134 Stat. at 474-75. Specifically, the Secretary must receive a warrant or equity interest if the borrower is a public company, or a warrant, equity interest, or senior debt instrument if the borrower is a private company.

approved loans within specified timeframes. Treasury is permitted to make loans through December 31, 2020.

Treasury published initial procedures for the loan program 3 days after enactment of the CARES Act. The initial procedures outlined basic eligibility requirements and information Treasury would ask for in an application. Treasury then took incremental steps to implement the program such as creating an application (see fig. 1). In March and May 2020, Treasury signed contracts with three financial advisors and three law firms to help determine terms and conditions and execute loans. It also extended an existing contract with a consultant to help review applications for loans. In April 2020, Treasury issued a frequently asked questions document that defined a business critical to maintaining national security, among other things. Treasury published additional information including how it would apply credit standards in July 2020 and evaluated applications for the loan program through summer and fall 2020.

Figure 1: Implementation Timeline for the Section 4003 Loan Program, 2020



Source: GAO analysis. | GAO-21-198

[a]Treasury set deadlines of April 27, 2020, and May 1, 2020, for applications from aviation businesses and national security businesses, respectively, to receive expedited review, according to Treasury. Treasury said it may consider applications received after these deadlines at its discretion and subject to availability of funds.

[b]The Federal Reserve established the Main Street Lending Program (MSLP) to support lending to small- and medium-sized businesses and nonprofit organizations that were in sound financial

condition before the onset of the COVID-19 pandemic. The CARES Act appropriated funding to support this and other lending facilities established by the Federal Reserve.

In addition to the Section 4003 loan program, Treasury was responsible for implementing several other programs and activities under the CARES Act. For example, Treasury implemented a new program—the Payroll Support Program—that provided financial assistance to air carriers and certain aviation contractors to continue paying employee wages, salaries, and benefits. As directed by the CARES Act, Treasury implemented the Payroll Support Program before the loan program, and Treasury began disbursing funds through the Payroll Support Program about 3 weeks after enactment of the CARES Act.

The CARES Act also established and supported other lending programs for businesses across industries. For example, the Federal Reserve established the Main Street Lending Program (MSLP) to support lending to small- and medium-sized businesses and nonprofit organizations that were in sound financial condition before the onset of the COVID-19 pandemic.[14] Banks and other lenders register to participate in the program, and the Federal Reserve purchases part of eligible loans originated by these lenders. The CARES Act also established the Paycheck Protection Program, which the Small Business Administration administered through an existing small business loan guarantee program.[15] Paycheck Protection Program loans are made at 1 percent interest and will be fully forgiven if certain conditions are met. In general, small businesses with 500 or fewer employees were eligible.[16]

[14]The CARES Act appropriated funding to support lending facilities established by the Federal Reserve. The facilities are authorized under section 13(3) of the Federal Reserve Act and approved by the Secretary of the Treasury. For more information on the implementation and use of the Federal Reserve's facilities, see GAO, *Federal Reserve Lending Programs: Use of CARES Act-Supported Programs Has Been Limited and Flow of Credit Has Generally Improved*, GAO-21-180 (Washington, D.C: Dec. 10, 2020).

[15]The CARES Act and the Paycheck Protection Program and Health Care Enhancement Act also appropriated a total of $670 billion for this program. Pub. L. No. 116-139, § 101, 134 Stat. 620 (2020) (amending § 1107(a)(1) of the CARES Act).

[16]Businesses in certain industries with more than 500 employees were eligible for loans.

Treasury's Policies and Procedures for Evaluating Loan Applications Were Generally Consistent with Internal Controls

Treasury Designed a Two-Stage Process to Evaluate Loan Applications

Treasury designed and developed a two-stage process—consisting of validating eligibility and underwriting—to evaluate loan applications starting in April 2020. Treasury set out the procedures to be used for each stage, including how staff and contractors were to document the evaluation results, based on Treasury documents we reviewed. This two-stage process is consistent with guidance for federal credit programs.[17] Treasury's process included the following procedures, which are explained in more detail in appendix II.

- **Validating eligibility**. The first stage sought to review a business's eligibility and validate information in an application, such as whether a business applied for or received loans under other CARES Act programs. It also set out three financial tests to assess an applicant's financial circumstances, and a business seeking an unsecured loan was to pass at least two of the tests to advance to the second stage. Contractor staff were to conduct most of the work for this stage, with DOT and the Department of Defense (DOD) helping to validate certain business details, such as whether an air carrier held a certificate to operate.
- **Underwriting.** The second stage focused on additional financial analysis of applications and seeking final approval for loans. Treasury was to conduct additional financial tests and prospective analyses covering different economic forecasts for each application. Treasury's guidance also called for more in-depth analysis of applications that pose a higher risk to Treasury, such as applications for larger loans. The procedures for this stage provided fewer specific procedures than for the first stage, which were more detailed and linear. Treasury's financial and legal advisors as well as its staff were to carry out the work for this stage.

[17]OMB, *Circular No. A-129*.

A credit committee mostly composed of senior Treasury officials was to review the outcomes of the underwriting stage and determine whether to recommend that Treasury approve loans. Ultimately, the Secretary of the Treasury was to approve loans greater than $300 million, and the Under Secretary of International Affairs was to approve all other loans.

Treasury's Policies and Procedures to Evaluate Loan Applications Were Generally Consistent with Selected Standards for Internal Control

In actions to design the loan program, Treasury aimed to meet applicable internal control standards in creating policies and procedures to evaluate loan applications, but it was not fully successful. It must be noted that Treasury had to design the loan program quickly, under challenging circumstances. Typically, a federal agency would have many months to develop regulations and other policies and procedures for a new loan program. In this case, Treasury had to establish program infrastructure, develop credit standards, and draft loan documents in a much shorter timeframe. Many of Treasury's actions to design the program aligned with selected components of internal control standards, based on our review of Treasury documents and interviews with officials. However, our analysis found that Treasury's design for the program could have been improved. Treasury's authority to make loans ends in December 2020, and we are therefore not making any recommendations. Instead, we identify lessons learned from this program and our past work later in this report.

Identify and respond to risks.[18] Treasury officials said they reviewed prior programs, leveraged advisors, and interacted with applicants to identify and address program risks.[19] For example, Treasury researched practices used for federal credit programs to inform some decisions on how to identify potential risks, such as creating a credit committee to

[18]GAO-14-704G. Management should identify, analyze, and respond to risks related to achieving the defined objectives.

[19]Following the 9/11 attacks, the Air Transportation Safety and System Stabilization Act provided up to $15 billion in assistance to air carriers. Pub. L. No. 107-42, § 101, 115 Stat. 230 (2001). $10 billion of this aid was used to guarantee loans to provide longer-term stability to air carriers. The board created to review and decide on loan guarantees, which included the Secretary of the Treasury, received 16 applications and closed six loan guarantees.

review proposed loans. According to Treasury officials, they also established careful credit underwriting procedures to conduct extensive financial analyses of each potential borrower to respond to potential risks. Based on discussions with Treasury officials, Treasury focused primarily on credit risk—that is, minimizing the financial risk to the government from a borrower not repaying a loan.[20] Based on discussions with Treasury officials, there was less focus on other programmatic risks, such as not providing assistance in a timely fashion. This may have affected participation in the program. As noted below, some stakeholders identified challenges with the program related to its timeline and requirements.

Design control activities.[21] Treasury developed and documented procedures for evaluating loan applications. Treasury used an incremental approach to develop and document procedures. This approach meant that guidance was evolving as Treasury completed designing the program. Treasury had to take this approach to quickly implement the program against the backdrop of the COVID-19 pandemic, according to Treasury officials. We observed that Treasury documented its policies and procedures for evaluating applications, including outlining staff roles and how staff should record results. According to Treasury, it had complete drafts of internal guidance that outlined procedures to evaluate loan applications on June 1, 2020. We also observed that this internal guidance was still in draft form, and subject to change, when Treasury began evaluating some applications and executing some loans. For instance, Treasury began validating information in applications in May, and Treasury executed a loan with a national security business—YRC Worldwide (YRC)—on July 8, 2020. Treasury did not finalize procedures for the first-stage of evaluating loan applications until mid-July 2020, and as of October 2020, Treasury had not finalized procedures for the second-stage of evaluating applications. Treasury officials said that to implement the program quickly, it was necessary to develop guidance

[20] In August 2010, we reported that protecting the government's and taxpayers' interest is an essential objective when creating large-scale financial assistance programs that put government funds and taxpayer dollars at risk of loss. Actions to protect these interests can include placing controls over management, obtaining collateral when feasible, and being compensated for risk, several of which were required by statute or implemented by Treasury for this loan program. GAO-10-719.

[21] GAO-14-704G. Management should design control activities to achieve objectives and respond to risks. Examples of control activities include appropriate documentation of transactions and procedures and accurate and timely recording of transactions.

incrementally as it was not possible to anticipate all the circumstances that could arise when reviewing applications. Treasury officials said they began training staff on procedures and sharing draft templates for memos to record decisions in mid-April while it was drafting its guidance. A lack of documented policies and procedures may have weakened the consistency with which Treasury reviewed and analyzed loan applications.

Communicate externally.[22] Treasury published and communicated externally loan application procedures and requirements on its website, but industry associations we spoke with said their members sometimes had difficulty getting answers or understanding program requirements. Treasury developed an approach to communicate externally. Specifically, Treasury published initial loan application procedures on its website, which officials said was to ensure a wide reach to possible applicants. After the applicant pool was known, Treasury then primarily provided information directly to applicants by email and phone. Treasury also developed procedures to outline how staff and contractors were to contact applicants to request information to complete an application or resolve conflicting information, and Treasury established an email address that applicants could use to ask questions. However, we found Treasury did not engage consistently in two-way communication and that the communication was not always clear, as described in further detail below. Furthermore, Treasury's published procedures and other written documents for the loan program provided very little explanation on certain items. For example, Treasury's July frequently asked questions document outlined the financial tests an applicant had to meet to be eligible for an unsecured loan but did not outline other conditions, namely the maximum amount available, for an unsecured loan. Treasury officials pointed out that its staff or advisors had countless communications with loan applicants on the program over the summer and fall of 2020 as they worked to implement the program. We further discuss external communication later in the report.

Participation in the Loan Program Varied and Stakeholders Said Timing of Decisions and

[22]GAO-14-704G. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Availability of Other Financing Options Affected the Number of Executed Loans

Interest in the Loan Program Varied by Business Type

Of the three categories through which eligible businesses could apply for loans, interest in the loan program was the highest from businesses in the passenger air carrier, repair station operator, and ticket agent category, based on the number of applications and amount of loan assistance sought (see table 1). Industry associations representing smaller passenger air carriers, repair station operators, and ticket agents said their members viewed the loan program as a critical resource to weather the effects of the pandemic, especially as some were not eligible for other CARES Act assistance. For example, passenger air carriers were eligible for the Payroll Support Program, but ticket agents were not.

Table 1: Applications and Loans for the CARES Act Loan Program for Aviation and Other Eligible Businesses

Loan Category	Number of applications submitted[a]	Number of loans executed	Assistance sought[b] (billions of dollars)	Assistance available (billions of dollars)	Assistance provided (billions of dollars)
Passenger air carrier, repair station operator, ticket agent	183	23	35.0	25	21.2
Passenger air carrier	92	16	26.9	n/a[c]	21.2
Repair station operator	41	5	1.5	n/a[c]	0.02
Ticket agent	50	2	6.6	n/a[c]	0.02
Cargo air carrier	10	1	0.8	4	0.002
National security business	74	11	2.6	17	0.7
Total	267	35	38.3	46	21.9

Source: GAO analysis of Department of the Treasury data. | GAO-21-198

[a]We removed four applications that we identified as duplicates.

[b]These totals represent all submitted applications, though some businesses later withdrew applications.

[c]Section 4003 authorized maximum assistance available through loans in three categories. Pub. L. No. 116-136, § 4003, 134 Stat. 281, 470. The statute did not further allocate assistance within the category for passenger air carrier, repair station operator, and ticket agent businesses. However, because this category was initially oversubscribed, Treasury elected to assign the $25 billion in funds in this category to subcategories in a manner consistent with the statutory allocation of funds under the Payroll Support Program. Treasury thus initially allocated $22 billion to passenger air carriers and $3 billion to repair station operators and ticket agents.

For businesses applying through the other two loan categories—cargo air carriers and national security businesses—interest, as measured by the amount of loan assistance sought, was substantially lower than available assistance. Industry associations representing businesses in these two categories told us their members were able to get support through other programs, were well positioned to access financing through private markets, or were not interested in the loan program due to the statutory requirements. For example, according to an industry association representing companies in the aerospace and defense sector, many of their members received assistance under other programs for government contractors. According to one industry association representing cargo air carriers, while the air cargo industry has faced operational and financial challenges, demand for air cargo services has been high. For example, domestic air cargo transportation, as measured by amount of cargo, was up 10 percent in 2020 through July as compared to 2019, according to data reported to DOT. In addition, in both categories, several large businesses eligible to apply did not. For example, two major U.S. cargo air carriers did not apply to the loan program. According to Treasury officials, low participation by some businesses was likely due to the loan program's credit standards that were designed to protect taxpayers.

When compared to the number of applications to the loan program, the number of executed loans to date is small. Of 267 applications submitted, 35 have resulted in executed loans. For the remaining applications submitted, 161 applications were withdrawn or rejected, which includes businesses that decided to seek financing elsewhere, did not meet Treasury's credit standards, or did not respond to Treasury's requests for additional information.[23] Forty-one applications were deemed ineligible, including 38 applications from businesses that did not meet Treasury's definition of or were not certified as a business critical to maintaining national security. The remaining 30 applications represent businesses that Treasury referred to the MSLP and did not return to the loan program.[24]

According to Treasury officials, Treasury has completed its review of applications, and all loan applicants have been informed of Treasury's decisions on applications submitted. Based on current information, Treasury does not expect to make loans beyond the 35 loans already executed before its lending authority expires on December 31, 2020.

Factors, Including the Program's Timeline, Resulted in Fewer Loans Being Made to Smaller Passenger Carriers and Other Businesses, According to Selected Stakeholders

Passenger Air Carriers, Repair Station Operators, and Ticket Agents

Major passenger air carriers—a sub-group of the loan category of passenger air carriers, repair station operators, and ticket agents—generally reported an application evaluation process that was responsive

[23]These figures are based on information on application outcomes provided by Treasury officials.

[24]In the application status outcome information provided by Treasury officials, some applications under the national security category also were encouraged by Treasury to apply to MSLP and did not return to Treasury's loan program. However, Treasury did not provide an exact number of applications in this category.

and flexible enough to address their financial needs.[25] In contrast, other businesses in this category felt the application evaluation process was difficult and overall designed for the major passenger air carriers, according to industry associations we interviewed. This perception led some to not apply to the program, withdraw from the program, or not execute loans offered by Treasury.

Major passenger air carriers. According to Treasury officials, Treasury prioritized applications from the 10 largest major passenger air carriers, and according to carriers we interviewed, the CARES Act loan program and Treasury's actions to implement it contributed to making private financing more available to these carriers. Treasury officials said they prioritized the applications from major passenger air carriers because these carriers employ the most people in the aviation and travel industries and are important to maintaining employment among other businesses in these industries. In April and May 2020, Treasury and these carriers began discussing loan terms such as possible collateral, according to Treasury and some air carriers we interviewed. Treasury provided major passenger air carriers with allocations for loan amounts and initial terms in April and May 2020, and publicly announced in early July that it had signed letters of intent for loans with these 10 major passenger air carriers. The letters of intent set out the tentative terms on which Treasury was prepared to extend loans. According to Treasury officials, the companies were able to quickly and comprehensively respond to the agency's requests for information. Of the 10 major passenger air carriers that signed letters of intent with Treasury, seven have executed loans with Treasury for nearly $20.8 billion.

Smaller passenger air carriers, repair station operators, and ticket agents. Of the 173 that applied, 16 smaller passenger air carriers, repair station operators, and ticket agents have executed loans with Treasury. The amount of time Treasury took to review applications and ultimately make loan offers, along with other challenges, resulted in relatively few executed loans in this category, based on interviews with industry

[25]According to Treasury documents, the top 10 passenger air carriers were identified based on global available seat miles in 2019, which measures how many seats on a plane on a given route are actually available for purchase. For this report, when referring to major passenger air carriers, we are referring to Alaska Airlines, American Airlines, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, JetBlue Airways, SkyWest Airlines, Spirit Airlines, Southwest Airlines, and United Airlines.

associations representing these businesses and selected applicants.[26] According to industry associations, while some of these companies were able to access other CARES Act financial assistance, without loan program support some of these companies are laying off employees and some are entering bankruptcy or ceasing operations. Challenges related to the loan application process cited by those we interviewed are listed below.

- **Timeline to process and evaluate applications.** Industry associations (6) we interviewed said it took too long to process and evaluate applications given the urgent need by some applicants for financial assistance, particularly smaller passenger air carriers and ticket agents. For example, these businesses applied to the loan program in April 2020 but Treasury did not sign a loan agreement with a company in this group until October 2020. According to Treasury officials, standard loan agreements with terms were not shared with these businesses until mid-August. One association we interviewed said that given the extreme conditions its members faced, they needed a quick response from Treasury on whether a loan would be executed. In fact, during our review two smaller passenger air carriers that applied for loans filed for bankruptcy and in one case began liquidating assets given the effect of the pandemic on their businesses.

  Treasury officials said it was very difficult to set up a loan program on such a short timeline. For instance, the loan program required extensive analysis by Treasury to create appropriate lending terms and extensive business-specific analysis to underwrite loans. This is a contrast to the Payroll Support Program, for which the statute set out the certain material terms including the amount of assistance for every participant, according to Treasury. Another challenge Treasury reported was obtaining needed financial information from smaller businesses in a standard format. Treasury officials said contractor and Treasury staff worked from May through July to help applicants properly complete their applications. Treasury also sought financial information in a standard format from applicants to allow it to evaluate the information more quickly.

- **Limited or unclear communication.** Industry associations (6) we spoke with said Treasury's communication with applicants was a challenge. Many of these associations described Treasury's approach

[26]We interviewed six industry associations whose members included passenger air carriers, repair station operators, or ticket agents.

to communicating as "frustrating" and said that there was a general lack of communication from Treasury to applicants. For example, one association said many of its members reported that they did not hear from Treasury for long periods of time after submitting applications and had no person to call or way to go online to see where an application was in the process. Another association said Treasury would often respond to questions by saying they would get back to an applicant. One applicant told us they repeatedly asked Treasury to clarify how it interpreted the requirement to retain employees; after being told by Treasury to wait for clarification, the applicant was ultimately told it was not eligible for a loan as it had not met this requirement. Treasury officials acknowledged that the department did not have answers on some issues until summer, but said that their staff and advisors had countless communications with loan applicants throughout summer and fall.

- **Statutory requirements.** Industry associations (4) we interviewed said meeting some of the statutory requirements—in particular to provide financial protection to the federal government, such as equity interest in a company—posed a challenge. Overall, several associations said the requirements were burdensome, with one of these associations saying it was easier for a business to lay off employees than apply for and work to meet the requirements of a loan. Another association said requirements related to maintaining employment levels were unclear.
- **Encouraging applicants to seek loans through another program.** Industry associations (6) raised concerns that Treasury had directed many of their members to the Main Street Lending Program (MSLP), rather than continuing to evaluate their applications.[27] According to Treasury, as it was conducting is first stage review, 114 applicants were encouraged to apply to the MSLP starting in mid-July. Treasury officials told us these applicants met two criteria—had a loan request under $300 million and passed Treasury's financial tests, which indicated they could be a good candidate for MSLP. Treasury officials said applicants were encouraged to apply to MSLP because the program could offer loans with more favorable terms and conditions more quickly. In addition, Treasury officials said that a business that applied for but did not receive a MSLP loan could use that rejection to demonstrate that credit was not available to them elsewhere, one

[27]Treasury's written internal guidance stated that applicants that passed specific financial tests were eligible for and should apply for MSLP, but it did not list how the loan amount requested by an applicant or other criteria would determine whether the applicant should apply for MSLP.

requirement in statute for the Treasury loan program. Two associations said that, from its members' perspective, Treasury had not advanced its own loan program enough for them to know how terms for the two programs would compare.

While certain terms for MSLP loans were more favorable compared to loans from Treasury, such as a lower interest rate, several industry associations pointed to the difficulty their members had even finding a bank willing to consider their MSLP applications. This occurred, in part, because lenders participating in MSLP use their own underwriting standards when considering loan applications, and bank underwriting standards have tightened as perceived economic risk increased during 2020.[28] As of mid-October, 602 lenders had registered to participate in MSLP but only 191 of these lenders had publicized that they are accepting loan applications from new for-profit customers.[29] Based on our comparison of MSLP loan recipients and Treasury loan program applicants, as of November 13, 2020, at least two loan program applicants had secured loans through MSLP.

Treasury stated that it allowed any applicant that was encouraged to apply to MSLP to resume its application for a loan from Treasury if it produced evidence that it sought and was unable to obtain an MSLP loan. According to Treasury officials, a number of applicants that ultimately received direct loans from Treasury followed this path. However, based on interviews with industry associations and selected applicants, applying for a different loan program and the associated logistical burdens—such as learning about a new loan program, trying to form new banking relationships in order to apply to this new loan program, being rejected from this new loan program, and then reapplying to Treasury's loan program—was a costly exercise. One association said that while Treasury may have had good intentions, their members interpreted Treasury's encouragement to apply to MSLP as essentially kicking them out of Treasury's loan program.

[28]We reported in December 2020 that banks have tightened underwriting standards, based on results from the Federal Reserve's Senior Loan Officer Opinion Survey. See GAO-21-180.

[29]Congressional Oversight Commission, *The Sixth Report of the Congressional Oversight Commission* (Oct. 29, 2020). The CARES Act established the Congressional Oversight Commission to conduct oversight of the implementation of the Coronavirus Economic Stabilization Act of 2020 (enacted as part of the CARES Act) by the Department of the Treasury and the Board of Governors of the Federal Reserve System. CARES Act, § 4020, 134 Stat. at 486-87.

Cargo Air Carriers

Ten cargo air carriers applied to the loan program, and one small cargo carrier executed a loan with Treasury. One association with cargo air carrier members that applied to the loan program told us about concerns related to the response time on loans and communication with Treasury, similar to those that were raised by smaller passenger carriers, repair station operators, and ticket agents.

National Security Businesses

Of the 74 national security businesses that applied to the loan program, Treasury executed 11 loans with businesses critical to maintaining national security. The first loan Treasury executed through the loan program was a business in this category—YRC Worldwide, a trucking company. Based on interviews with Treasury, our review of loan documents, and reports by the Congressional Oversight Commission, YRC's experience with the loan program does not represent the experience of other national security businesses that applied.[30]

Treasury executed a loan with YRC in July 2020, almost 3 months before it executed any other loans. Treasury officials acknowledged the agency did not follow the standard process established for evaluating applications for the YRC loan but said YRC's application required approval by the credit committee and had to meet requirements set for all applications, such as passing financial tests. The YRC loan also differed in that Treasury staff not otherwise involved in the loan program helped negotiate and execute the loan. According to Treasury, it accelerated evaluating YRC's application due to the urgency of the business's financial circumstances, including the possibility of YRC filing for bankruptcy if it did not receive aid. Treasury did not fast track any other applications from specific businesses based on financial need, though other businesses faced similar circumstances. As of the date of this report, the Congressional Oversight Commission's work to examine the loan to YRC is ongoing.

[30]The Congressional Oversight Commission raised concerns about the loan to YRC, including YRC's financial condition prior to executing the loan. The Commission has requested and reported on documents from Treasury on how Treasury evaluated YRC's application. See, for example, Congressional Oversight Commission, *The Fourth Report of the Congressional Oversight Commission* (Aug. 21, 2020).

For other businesses in this category that applied for loans, an industry association we interviewed representing these businesses said they had concerns similar to those raised by smaller passenger air carriers, repair station operators, and ticket agents—including the response time on loan applications and limited communication.

Lessons from the Loan Program Include Potential Improvements to Design and Implementation That Could Inform Similar Loan Programs in the Future

The ongoing effects of the pandemic on the aviation industry have led the administration and Congress to consider additional forms of assistance either in standalone legislation or as part of a broader stimulus package. Our evaluation of Treasury's application evaluation procedures for the loan program, along with challenges highlighted by industry associations and applicants, offer possible areas of improvement and lessons for emergency-lending programs in the future. Industry associations and applicants we contacted reported that while the CARES Act loan program resulted in some positive outcomes, in particular to help reopen private markets for large passenger air carriers, it fell short of providing assistance to some applicants, especially smaller aviation businesses. Congress and Treasury can consider these experiences and lessons in designing future assistance packages—not only in response to the current pandemic but also in response to future events—to provide businesses with timely financial support, while affording taxpayers adequate protections.

Regardless of whether new assistance is provided, as Treasury finishes making loans at the end of December 2020, Treasury's responsibilities will shift to overseeing the loans it was able to extend. Such oversight will include monitoring and enforcing compliance with various stipulations in the loan agreements, such as that borrowers adhere to financial ratios, limit executive compensation, and make interest and principal payments on time. With respect to Treasury's oversight of another program established under the CARES Act—the Payroll Support Program—we recommended in November that Treasury develop and implement a compliance monitoring plan that identifies and responds to identified program risks and addresses potential fraud.[31] We intend to continue our oversight activities of the loan program to ensure, among other things, that Treasury has a robust oversight program that includes compliance monitoring.

Multiple Programs or Multiple Paths within a Program May Better Accommodate Businesses of Varied Types and Sizes

The Section 4003 loan program authorized assistance to a variety of aviation and other businesses that are not routinely grouped together for federal oversight or assistance. A wide range of businesses—from major air carriers with tens of thousands of employees to ticket agents and small air carriers with a handful of employees—were eligible for loans.

Treasury officials said it was a challenge to create a lending program where the applicants offered very different types of collateral for secured loans. Treasury officials also noted that many small businesses that applied were unfamiliar with government programs or the underwriting process. Given these circumstances, Treasury had to process a variety of information from many different types of businesses. For example, according to Treasury officials, some smaller businesses did not have current audited financial statements to include in their loan applications.

Four industry associations we interviewed said that Treasury's process for the loan program appeared to be designed for the circumstances and operations of major passenger air carriers. One association said, for example, that Treasury approached the program with large businesses in mind and expected a level of sophistication in the application process from smaller businesses that did not exist. Based on such experiences, several associations said the loan program could have been improved if it had two paths for loans.[32] Such an approach could potentially allow

[31]Treasury neither agreed nor disagreed with our recommendation but committed to reviewing additional measures that may further enhance its compliance monitoring. See GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020).

[32]For example, for the Payroll Support Program, Treasury required passenger carriers receiving payroll support of more than $100 million, cargo air carriers receiving more than $50 million, and contractors receiving more than $37.5 million to provide financial instruments as appropriate compensation to the U.S. government. Recipients that received lower amounts of payroll support did not have to provide such compensation.

applicants of different sizes and types to follow processes more suited to their needs and resources.

The CARES Act established programs to assist a range of businesses, such as the Paycheck Protection Program for small businesses across industries—generally for those with less than 500 employees. According to several industry associations we interviewed, some larger businesses were often able to find private financing or equity, and actions by the Federal Reserve likely also helped support the financial markets and restore the confidence of market participants that, in turn, could aid the availability of private financing. With these options at the ends of the spectrum, several industry associations representing some aviation-related businesses we interviewed said some mid-sized member businesses fell in the gap between these programs and assistance. As a result, these businesses focused on the Treasury loan program, where they encountered challenges, as described above.

Setting and Communicating Clear Program Goals or a Primary Program Goal Could Help to Better Align Lender and Borrower Expectations

When designing and implementing the loan program, Treasury viewed itself as a lender of last resort, according to Treasury officials. The federal government typically takes this position for federal credit programs as it seeks to supplement, rather than replace, private markets.[33]

This view was not stated in published information on Treasury's website, and many businesses expected Treasury to make loans more quickly not knowing Treasury's view of its role. This difference in expectations also meant many of the applicants Treasury encouraged to apply to another lending program were surprised by this advice, as discussed above.

Treasury executed loans with seven major passenger air carriers in September 2020, although private markets had reopened to these carriers during the summer. For example, the four largest passenger air carriers in the U.S. had raised almost $100 billion in funding to ensure liquidity since the start of the pandemic, according to figures reported by one air carrier. Treasury officials said they offered general terms and allocations for loans to major air carriers in April 2020 to in part allow the

[33]OMB, *Circular No. A-129*.

carriers to assess such loans against other available options for financing. Three major passenger air carriers did not execute Treasury loans, although they worked with Treasury over the summer to understand and negotiate loan terms. These three carriers all opted to seek and received only private financing.

Clear program goals, whether set in legislation or articulated by the agency, could have also helped Treasury make and communicate its decisions on prioritizing applications. Treasury officials said they prioritized applications for major passenger air carriers because they employ the most people among eligible businesses. A couple industry associations we interviewed that represent smaller carriers understood why Treasury would choose to prioritize major employers. Yet, some of these carriers had access to private financing in the markets. Two associations felt other considerations, namely the urgency of applicants' financial need, could have been a useful way to prioritize applications.

In August 2010, we reported on lessons learned for the federal government when providing assistance to the private market during financial crises, and one lesson was that the government should set clear goals and objectives when providing assistance.[34] We reiterate this principle here, in the context of implementing a program in response to a public health and economic crisis. Clearly articulating goals can help align expectations across entities.

Setting and Communicating Timelines for a Program Is Important for Businesses Facing Dire Financial Circumstances

Treasury worked to publish initial application procedures for the loan program immediately after enactment of the CARES Act. Treasury published procedures and frequently asked question documents for the loan program in March, April, and July. However, the published documents did not communicate a timeline for evaluating applications and making loans. As noted above, Treasury worked to incrementally implement the loan program, generally after implementing the Payroll Support Program. Outside the YRC loan, Treasury did not execute any

[34] GAO-10-719.

loans until the end of September 2020, 6 months after the CARES Act was enacted.

As a result of this lack of transparency over timeframes, some businesses that applied for loans were unsure when Treasury aimed to execute loans, as noted above. Not knowing overall timelines for the loan program complicated some business's decision-making, based on our interviews with industry associations and applicants. For example, one statutory requirement for a business to receive a loan was to retain at least 90 percent of employees on board as of March 24, 2020, through September 30, 2020. Many businesses eligible for a loan had substantial drops in revenue—in some cases drops greater than 95 percent—following the onset of the pandemic and faced difficult tradeoffs regarding their employees. As described by one association, the lack of a clear timeline complicated its members' decision-making since a loan, in many cases, could provide liquidity to continue paying employees. In addition, while some loan program applicants, such as air carriers, accessed the Payroll Support Program to help pay their employees, other loan program applicants did not as they were not eligible for this assistance. Therefore, the financial implications of maintaining employment levels while awaiting loan decisions varied dramatically for loan program applicants and points to the need to clearly communicate timelines.

We found in August 2010 that the government should ensure adequate transparency by establishing an effective communication strategy. The report states that transparency means more than simply reporting available information to interested parties; it involves concerted action, which could include sharing timelines, to help ensure an understanding of the matters at hand.[35] Ensuring such transparency would create additional tasks for an agency busy establishing a new program. Yet, investing time in such tasks could help avoid problems caused by a lack of communication, such as confusion about the motivations behind program actions and decisions.

Leveraging Resources from Other Agencies and External Parties Is Critical

In August 2010, we reported that the federal government should coordinate actions on a comprehensive basis when providing financial

[35] GAO-10-719.

assistance. Specifically, a crisis requires interventions that must be closely coordinated to help ensure that limited resources are used effectively.[36] Treasury was tasked to create a new program—along with other responsibilities set out for it in the CARES Act—to support a specific industry facing economic distress. Under such resource strains, effective collaboration across agencies and other entities could help ensure program goals are met.

Treasury drew on its experience managing credit programs and providing financial assistance during times of crisis to the private sector to stand up the new loan program. Treasury also enlisted external advisors with expertise in lending and detailed staff from across the Department to help with the program. And, as noted above, Treasury coordinated with DOT and DOD to validate some information in applications. Several industry associations and applicants we spoke with appreciated the work Treasury did to try to implement the program as quickly as it could. According to DOT officials, Treasury also sought input from DOT as it implemented the loan program, and DOT provided information in response to these inquiries.

However, experiences from this program reinforce the need to collaborate to, in part, ensure the right people with the right skills are in place to carry out an agency's work. Treasury could have made greater use of expertise at DOT, DOD, or other entities on the aviation and national security industries to design the program and help communicate with eligible businesses, based on the experiences of industry associations we interviewed. For example, Treasury could have sought to further include DOT and DOD in the application evaluation process or loan program, as many eligible businesses have established relationships with these other agencies. Four associations and three applicants said Treasury's external advisors were not familiar with or knowledgeable about parts of the aviation industry or air carrier finance. One applicant we interviewed said Treasury officials and their advisors were not experts in aviation but were receptive to feedback from applicants, and the advisors came up to speed quickly on their business's circumstances.

[36] GAO-10-719.

Agency Comments

We provided a copy of this report to Treasury and DOT for review and comment. Treasury provided technical comments, which we incorporated as appropriate. DOT told us that it had no comments on the draft report.

We are sending copies of this report to the appropriate congressional committees, the Secretary of the Treasury, the Secretary of Transportation, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact Heather Krause at (202) 512-2834 or krauseh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are list in appendix III.

Heather Krause
Director, Physical Infrastructure Issues

List of Committees

The Honorable Richard Shelby
Chairman
The Honorable Patrick Leahy
Ranking Member
Committee on Appropriations
United States Senate

The Honorable Mike Crapo
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Mike Enzi
Chairman
The Honorable Bernie Sanders
Ranking Member
Committee on the Budget
United States Senate

The Honorable Roger Wicker
Chairman
The Honorable Maria Cantwell
Ranking Member
Committee on Commerce, Science, and Transportation
United States Senate

The Honorable Nita M. Lowey
Chairwoman
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable John Yarmuth
Chairman
The Honorable Steve Womack
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Peter A. DeFazio
Chairman
The Honorable Sam Graves
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

Appendix I: Treasury's Actions Met Selected Statutory Requirements for Implementing the Program

The CARES Act set out requirements for the Department of the Treasury (Treasury) related to the loan program.[1] Based on our review of Treasury documents, Treasury took actions to implement the program that were consistent with these requirements as summarized in table 2.

Table 2: The Department of the Treasury's (Treasury) Actions to Fulfill Statutory Requirements for Implementing the Section 4003 Loan Program

Requirement	Treasury actions
Publish procedures for the program within 10 days of enactment	Treasury published a document with procedures and minimum requirements a business had to meet to apply for a loan on March 30, 2020, 3 days after the CARES Act was enacted.
Coordinate with the Department of Transportation (DOT) to carry out requirements with respect to air carriers including continuing air service obligations[a]	Treasury sought information from DOT, and DOT provided information in response to these inquiries. Treasury created procedures to collect information from DOT to confirm the eligibility of air carriers and repair station operators that applied for loans.
Issue and publish reports on approved loans	Treasury has posted loan documents and summaries, as well as monthly reports on its CARES Act website.
Include certain provisions in agreements to make loans or loan guarantees to eligible businesses	Loan documents, for all executed loans[b] included provisions for borrowers to limit compensation for certain employees and meet other requirements for the loan program.

Source: GAO analysis of CARES Act and Treasury documents. | GAO-21-198

[a]As authorized by the CARES Act, DOT required scheduled passenger air carriers receiving financial assistance to maintain minimum scheduled passenger service through September 30, 2020. During this time, carriers had to serve points in the United States that they served before March 1, 2020, with some exemptions, in accordance with section 4114(b) of the CARES Act.

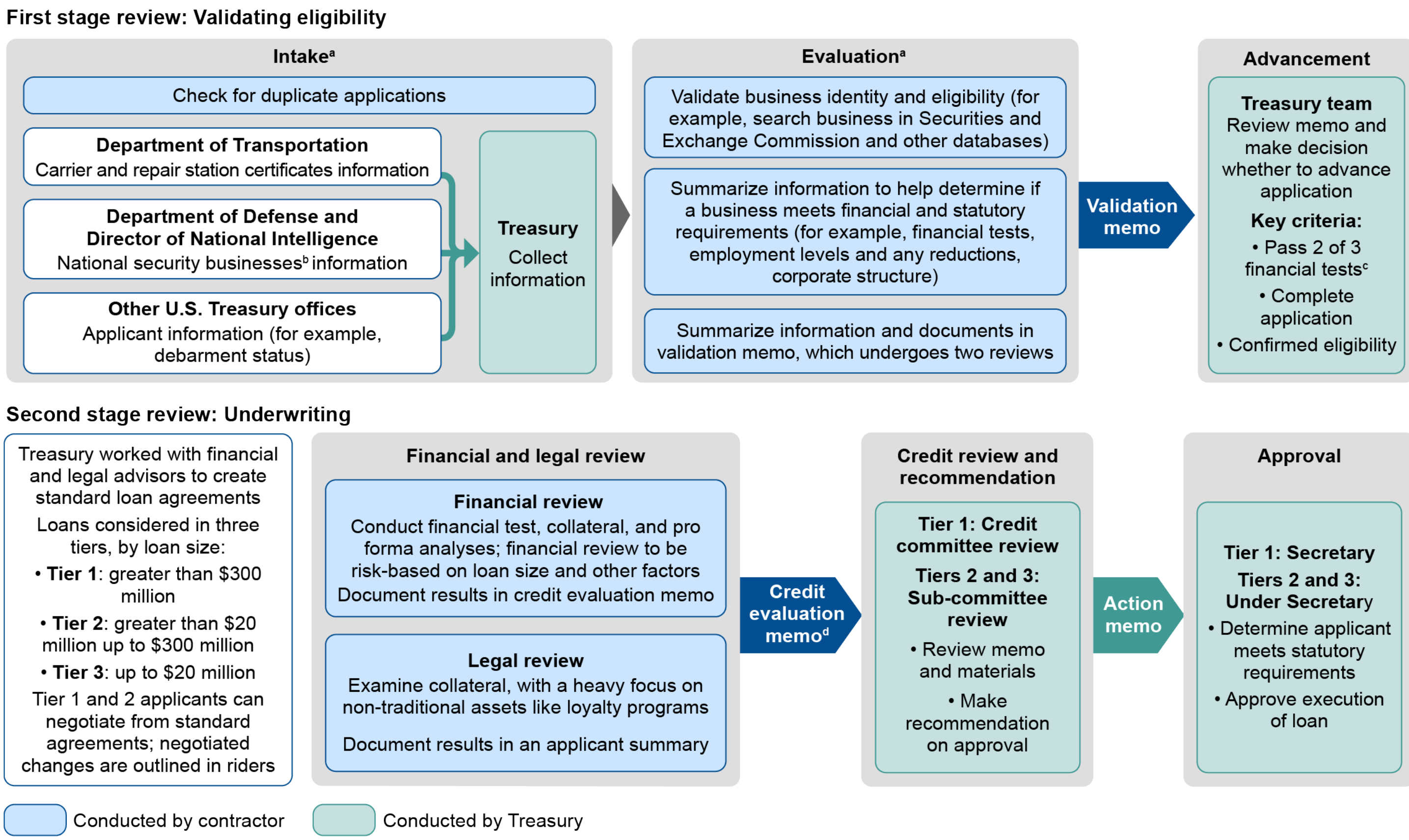
[b]Treasury executed 35 loans as of November 13, 2020. According to Treasury officials, the agency did not anticipate executing any additional loans before its authority to make new loans expires on December 31, 2020. Therefore, we treat the 35 loans executed as of November 13, 2020, as the final number of loans executed through the loan program.

[1]CARES Act, Pub. L. No. 116-136, 124 Stat. 281.

Appendix II: Overview of Treasury's Evaluation Procedures for the Section 4003 Loan Program

Figure 2 describes the Department of the Treasury's (Treasury) two-stage process to evaluate loan applications. For the first-stage review, contracted staff largely consisted of consultant staff who processed, collected, and validated information on applications. For the second-stage review, contracted staff included financial and legal advisors as well as consultant staff.

Figure 2: The Department of the Treasury's (Treasury) Process for Evaluating CARES Act Section 4003 Loan Applications



Source: GAO analysis of U.S. Treasury information. | GAO-21-198

Notes: The credit committee was composed of the Under Secretary for International Affairs (chair), Deputy Assistant Secretary for Public Finance (vice chair), Assistant Secretary for International Markets, Senior Advisor to the Assistant Secretary for International Markets, and Deputy Chief Policy Officer of the Pension Benefit Guaranty Corporation. The sub-committee was composed of three of the full credit committee's members: Deputy Assistant Secretary for Public Finance (chair), Assistant Secretary for International Markets, and Senior Advisor to the Assistant Secretary for International Affairs.

[a]For intake and evaluation, Treasury outlined a process to contact applicants for additional information, which uses the process for the Payroll Support Program. Contractors were to identify information missing or needing clarification, and Treasury staff were to contact applicants.

[b]Procedures outlining how Treasury was to coordinate with other agencies for national security businesses is not outlined in Treasury's written guidance.

[c]The three financial tests were a leverage test, coverage test, and collateral test. A business seeking an unsecured loan had to pass the leverage test and either the coverage or collateral test to advance to the second stage of review.

[d]The credit evaluation memo for a business covers, among other things, financial strengths before the pandemic and effects of the pandemic. It also summarizes how a business meets specific statutory requirements for the loan program—lack of credit elsewhere, prudent incurrence of debt, extent of covered losses, and how the interest rate reflects risk.

Appendix III: Contact and Staff Acknowledgments

GAO Contact

Heather Krause, (202) 512-2834 or krauseh@gao.gov

Staff Acknowledgments

In addition to the contact named above, Heather MacLeod (Assistant Director), Joanie Lofgren (Analyst-in-Charge), Amy Abramowitz, Sarah Arnett, Paul Aussendorf, Marcia Carlson, Mikey Erb, Camilo Flores, Ted Hu, Delwen Jones, K.F. Lee, Maureen Luna-Long, Tarek Mahmassani, Joshua Ormond, Christie A. Pugnetti, Stephanie Purcell, Alexandra Rouse, Farrah Stone, Janet Temko-Blinder, Patrick Tierney, Karen Tremba, and Susan Zimmerman made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube.
Subscribe to our RSS Feeds or Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/fraudnet/fraudnet.htm

Automated answering system: (800) 424-5454 or (202) 512-7700

Congressional Relations

Orice Williams Brown, Managing Director, WilliamsO@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814,
Washington, DC 20548