



July 2021

PAYCHECK PROTECTION PROGRAM

SBA Added Program Safeguards, but Additional Actions Are Needed

Accessible Version

GAO Highlights

Highlights of [GAO-21-577](#), a report to congressional addressees

Why GAO Did This Study

Since March 2020, Congress has provided commitment authority of about \$814 billion for PPP, which provides small businesses with low-interest loans that SBA fully guarantees.

The CARES Act includes a provision for GAO to monitor funds provided for the COVID-19 pandemic. This report examines (1) safeguards that SBA put in place during the PPP loan approval process, (2) the PPP loan forgiveness process, including processes for unforgiven loans, and (3) SBA's oversight of PPP loans and lenders.

GAO reviewed SBA documentation; surveyed a generalizable sample of PPP lenders; analyzed data on loan forgiveness applications; compared SBA processes against federal guidance on credit programs; and interviewed staff from SBA, the Department of the Treasury, and four trade associations representing lenders.

What GAO Recommends

GAO recommends that SBA (1) finalize a process for claiming the PPP loan guarantee, (2) implement the statutory requirement to purchase PPP loans in advance of loan forgiveness or seek statutory exceptions to the requirement, (3) finalize procedures for the steps of its loan review process that are not yet documented, and (4) develop and implement a process to ensure timely communication with lenders. SBA generally agreed with the four recommendations, including seeking statutory flexibility or repeal of the requirement to purchase PPP loans in advance of loan forgiveness.

View [GAO-21-577](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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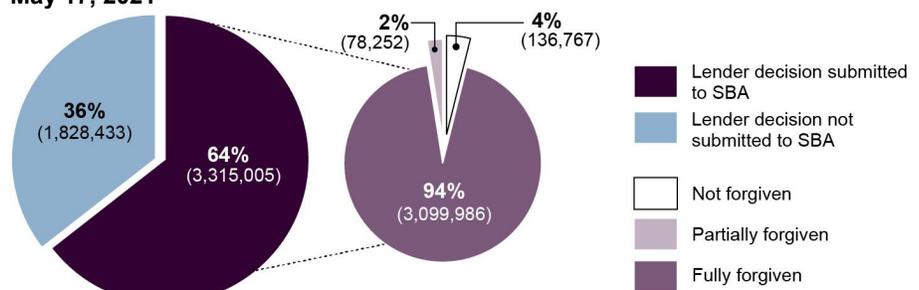
What GAO Found

The Small Business Administration (SBA) quickly implemented the Paycheck Protection Program (PPP) in April 2020 to assist small businesses adversely affected by COVID-19. But SBA's initial limited program safeguards resulted in improper payments and fraud risks. In June 2020 and March 2021, GAO recommended that SBA do more to oversee PPP and identify and respond to fraud risks. In response, SBA implemented compliance checks for applications submitted in 2021 and stated it would conduct a fraud risk assessment.

PPP loans are fully forgivable (do not have to be repaid) if borrowers meet certain conditions. As of May 2021, SBA had made determinations on 3.3 million loan forgiveness applications (see figure) but had not issued guidance for key aspects of the forgiveness process. Specifically:

- SBA had not yet finalized a process on how lenders can claim the SBA guarantee if the loan is not fully forgiven or when they have evidence the business ceased operations or declared bankruptcy. Without such a process, lenders' capital will remain tied up, limiting their ability to make non-PPP loans to small businesses.
- SBA had not implemented, nor sought exceptions to, a statutory requirement to purchase loans prior to loan forgiveness upon submission of reports by lenders concerning the amount expected to be forgiven.

SBA Loan Forgiveness Determinations on PPP Loans Made During Round 1, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | [GAO-21-577](#)

Data table for SBA Loan Forgiveness Determinations on PPP Loans Made During Round 1, as of May 17, 2021

- 3,315,005 Lender decision submitted to SBA
- 1,828,433 Lender decision not submitted to SBA

Of the 3,315,005 decisions submitted to SBA

- 136,767 not forgiven
- 78,252 partially forgiven

- 3,099,986 fully forgiven

Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

SBA has enhanced its oversight of PPP, such as by conducting in-depth reviews of selected loans, but it has not documented certain loan review steps or developed a process to improve communication with lenders.

- SBA has not yet finalized procedures for senior-level reviews of borrower eligibility and loan forgiveness decisions, increasing the risk of inconsistent or incorrect loan determinations.
- Although SBA has developed tools such as a web portal to communicate with lenders, it has not developed a process to ensure its responses to lenders are timely. Some lenders responding to GAO's survey said SBA had not responded in a timely manner or at all to inquiries on loan forgiveness applications, which has created confusion and uncertainty for lenders and borrowers and made it difficult for them to make management decisions.

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Abbreviations

BSA	Bank Secrecy Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
DOJ	Department of Justice
FAQ	frequently asked questions
Federal Reserve	Board of Governors of the Federal Reserve System
OIG	Office of Inspector General
OMB	Office of Management and Budget
PPP	Paycheck Protection Program
SAR	suspicious activity reports
SBA	Small Business Administration
Treasury	Department of the Treasury

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July 29, 2021

Congressional Addressees

There are more than 30 million small businesses in the United States, many of which have been adversely affected by Coronavirus Disease 2019 (COVID-19). The Paycheck Protection Program (PPP) was designed to assist affected small businesses by providing low-interest loans that are fully forgivable (do not have to be repaid) under certain conditions. Since March 2020, Congress has provided approximately \$814 billion in commitment authority for PPP. As of May 31, 2021, the Small Business Administration (SBA), which administers the program and guarantees the loans, had processed more than 11.8 million loans totaling about \$800 billion.¹

As we reported in June 2020, SBA moved quickly to implement PPP so that lenders could begin distributing funds as quickly as possible.² For example, SBA's first interim final rule allowed lenders to rely on borrowers self-certifying their eligibility and plans to use loan proceeds, and it required limited lender review of borrower documents to determine the qualifying loan amount and eligibility for loan forgiveness.³ While millions of small businesses have benefited from PPP, the speed with which SBA implemented the program left it with limited safeguards to identify and respond to program risks, including susceptibility to improper payments and fraud.

Since June 2020, we have reported on the implementation of PPP several times, including on the potential for fraud and the need for better

¹PPP was authorized under SBA's 7(a) small business lending program.

²GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

³Congress later amended and expanded a PPP lender hold harmless provision, providing that lenders may rely on any certification or documentation submitted by applicants that is submitted, and attests that it is submitted, pursuant to all applicable statutory requirements. Pub. L. No. 116-260, div. N, tit. III, § 305, 134 Stat. 1182, 1996-97 (2020). Congress made this amendment retroactive, as if it was included in the original statutory language.

controls.⁴ We included PPP as a new area on our High-Risk List in March 2021 because of the potential for fraud, significant program integrity risks, and need for much improved program management and oversight.⁵ We also cited the results of SBA's most recent financial statement audit, in which the auditor issued a disclaimer of opinion on SBA's financial statements because SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP.⁶

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) includes a provision for GAO to conduct monitoring and oversight of the use of funds made available to prepare for, respond to, and recover from the COVID-19 pandemic.⁷ This report examines (1) safeguards that SBA put in place during the PPP loan approval process, (2) the PPP loan forgiveness process, including processes for unforgiven loans, and (3) SBA's oversight of PPP loans and lenders.

For all of the objectives, we surveyed a generalizable sample of 1,383 PPP lenders to obtain their perspectives on the loan approval and loan forgiveness processes and the program in general. The survey closed on April 15, 2021, and we received 781 responses. We obtained a weighted

⁴See [GAO-20-625](#); *COVID-19: Brief Update on Initial Federal Response to the Pandemic*, [GAO-20-708](#) (Washington, D.C.: Aug. 31, 2020); *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, [GAO-20-701](#) (Washington, D.C.: Sept. 21, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021); and *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

⁵GAO, *High Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

⁶Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020).

⁷Pub. L. No. 116-136, § 19010, 134 Stat. 281, 579-80 (2020). We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, [GAO-21-551](#) (Washington, D.C.: July 19, 2021). Our next government-wide report will be issued in October 2021 and will be available on GAO's website at <https://www.gao.gov/coronavirus>.

response rate of 57.3 percent.⁸ We also interviewed four lending associations to obtain their perspectives on SBA's implementation of PPP. We selected these organizations because they represent a variety of lenders that offered PPP loans, including banks, credit unions, and community-based financial institutions. In addition, we interviewed officials in SBA's Office of Capital Access, which administers PPP.

For the first objective, we analyzed SBA's interim final rules, procedural notices, and responses to frequently asked questions (FAQ) to determine the initial safeguards SBA put in place for approval of SBA loans and any changes SBA made as the program evolved. We also reviewed reports issued by the SBA Office of Inspector General (OIG), SBA's financial statement audit, and prior GAO reports. To determine the extent to which PPP lenders were associated with fraudulent borrowers, we reviewed Department of Justice (DOJ) media releases on fraud cases. We compared borrowers identified through these releases to PPP loan-level data.

For the second objective, we analyzed SBA's interim final rules, procedural notices, FAQs, and loan forgiveness forms. Additionally, we interviewed officials from an SBA contractor that developed the PPP loan forgiveness platform and an SBA contractor that conducted PPP loan reviews. We also compared SBA's policies and processes against the Office of Management and Budget's (OMB) guidance for the management and operation of federal credit programs (Circular A-129) and the CARES Act.⁹ We analyzed SBA loan-level data to determine characteristics of loan forgiveness determinations, as of May 17, 2021. We assessed the reliability of these data by reviewing related documentation, interviewing knowledgeable agency officials, and performing electronic testing. We determined the data were sufficiently reliable for the purposes of describing characteristics associated with SBA's processing of loan forgiveness applications.

For the third objective, we reviewed SBA's rules and guidance for PPP borrowers and lenders and internal SBA policies and procedures covering loan and loan forgiveness reviews. We compared the policies and

⁸We used a weighted response rate because our survey sample incorporates strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, large units that contribute relatively more to the estimate of a total would have a larger "weight" on the response rate.

⁹Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (Washington, D.C.: January 2013).

procedures SBA used to manage elements of PPP against OMB Circular A-129. We focused on consistency with selected standards related to applicant screening, loan documentation, managing lenders and servicers, and credit program management. We also compared SBA's policies and procedures against federal internal control standards for control activities.¹⁰ Appendix I describes our scope and methodology in greater detail. Appendix II contains results from our lender survey.

We conducted this performance audit from June 2020 to July 2021 in accordance with generally accepted government auditing standards. 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

In response to the far-reaching public health and economic crises resulting from COVID-19, 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 COVID-19.

Among other things, the act established the Paycheck Protection Program, which was designed to help small businesses affected by COVID-19. Business demand for the loans led to PPP being reauthorized several times after its initial launch on April 3, 2020 (see fig. 1).

- SBA stopped accepting new applications on April 15, 2020, because the initial appropriation was exhausted.
- Following an additional appropriation, SBA resumed lending on April 27, 2020, and businesses could apply for a PPP loan through August 8, 2020.¹¹

¹⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

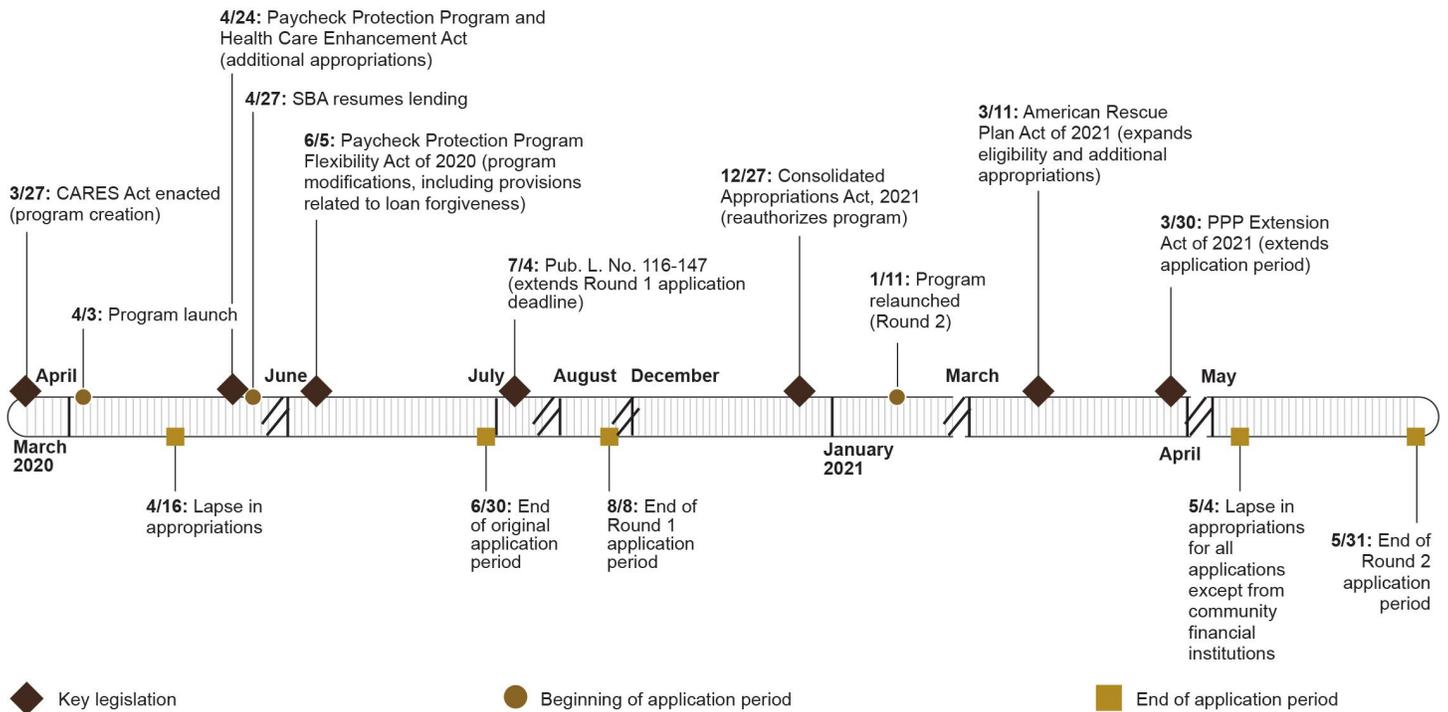
¹¹The application period for PPP initially ended on June 30, 2020. On July 4, 2020, legislation was enacted that extended the application period until August 8, 2020. Pub. L. No. 116-147, 134 Stat. 660 (2020).

- The Consolidated Appropriations Act, 2021, authorized additional loans under the program, including second PPP loans (second draw loans) of up to \$2 million for PPP borrowers provided they met certain criteria.¹²
- SBA relaunched the program (Round 2) on January 11, 2021, with a program expiration date of March 31, 2021. Congress later extended the program to allow small businesses to apply for a PPP loan through May 31, 2021, but most of the program's funds were exhausted before then. SBA stopped accepting new applications from most lenders on May 4, 2021.¹³

¹²PPP borrowers are eligible to receive a second PPP loan of up to \$2 million provided that they meet certain criteria, such as having not more than 300 employees, using the full amount of their initial PPP loan on or before the expected date of second PPP loan disbursement, and documenting revenue losses in calendar year 2020. Pub. L No. 116-260, div. N, tit. III, § 311, 134 Stat. 1182, 2001 (2020); see also Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans, 86 Fed. Reg. 3712 (Jan. 14, 2021).

¹³SBA continued to accept new applications from community financial institutions because funds set aside for them remained. SBA also continued to process pending applications.

Figure 1: Timeline of Key Paycheck Protection Program Events, as of May 31, 2021



Source: GAO analysis of legislation and Small Business Administration (SBA) documents. | GAO-21-577

Text of Figure 1: Timeline of Key Paycheck Protection Program Events, as of May 31, 2021

Date	Description	Type
3/27/20	CARES Act enacted	Key event
4/3/20	Program launched	Beginning of application period
4/16/20	Lapse in appropriations	End of application period
4/24/20	Paycheck Protection Program and Health Care Enhancement Act appropriates additional funding	Key event
4/27/20	SBA resumes lending	Key event
6/5/20	Paycheck Protection Program Flexibility Act of 2020	Key event
6/30/20	End of original application period	End of application period
7/4/20	Pub L. No. 116-147 (extends Round 1 application deadline)	Key event

Date	Description	Type
8/8/20	End of Round 1 application period	End of application period
12/27/20	Consolidation Appropriations Act, 2021	Key event
1/11/21	Program relaunched (round 2)	Beginning of application period
3/11/21	American Rescue Plan Act of 2021 (expands eligibility appropriations)	Key event
3/30/21	PPP extension Act of 2021 (extends application period)	Key event
5/4/21	Lapse in appropriations for all applications except from community financial institutions	End of application period
5/31/21	End of Round 2 application period	End of application period

Source: GAO analysis of legislation and Small Business Administration (SBA) documents. | GAO-21-577

PPP loans, which are made by lenders but 100 percent guaranteed by SBA, are low interest (1 percent) and fully forgivable if certain conditions are met.¹⁴ The borrower can apply through its lender to have the loan forgiven any time on or before the maturity date of the loan if the borrower has used all the loan proceeds for which the borrower is requesting forgiveness.¹⁵ At least 60 percent of the loan forgiveness amount must be for payroll expenses to qualify for full loan forgiveness, and there is a simplified loan forgiveness application process for loans of \$150,000 or less.¹⁶ See table 1 for other characteristics of PPP loans as currently

¹⁴The loan guarantee covers a lender’s losses in the event of a borrower default, reducing the risk of lending to small businesses.

¹⁵However, a borrower applying for forgiveness of a second draw PPP loan that is more than \$150,000 must submit the loan forgiveness application for its first draw loan before or simultaneously with the loan forgiveness application for its second draw loan. Forgivable expenses are incurred over the covered period for the PPP loan. The “covered period” is the period following receipt of a PPP loan during which borrowers can spend the loan proceeds on covered expenses. The covered period begins on the date a lender disburses the loan and ends on a date selected by the borrower during the period between 8 and 24 weeks after disbursement.

¹⁶SBA originally required borrowers to spend at least 75 percent of forgivable expenses on payroll costs, but this requirement was modified by later legislation.

implemented, and appendix III for information on SBA's implementation of key PPP terms.

Table 1: Characteristics of First Draw Paycheck Protection Program Loans

Characteristic	Detail
Interest rate	1 percent
Loan term	Loans issued prior to June 5, 2020: 2 years, unless mutually extended Loans issued on or after June 5, 2020: 5 years
Permissible use of loan proceeds for potential forgiveness	<ul style="list-style-type: none"> At least 60 percent must be used for payroll costs Up to 40 percent may be used for eligible nonpayroll costs, such as covered mortgage interest, rent, and utility payments^a
Eligibility	<p>Examples of eligible entities affected by COVID-19 include:</p> <ul style="list-style-type: none"> Sole proprietors, independent contractors, and self-employed persons Any small business concern that meets SBA's size standards (either the industry size standard or the alternative size standard) Any business, 501(c)(3) nonprofit organization, 501(c)(19) veterans organization, or tribal business concern with 500 or fewer employees or that meets the SBA industry size standard, if more than 500 Any business in the accommodations and food services sector that has more than one physical location and employs less than 500 people per physical location
Collateral/personal guarantee	None required
Length of time to use loan proceeds for forgiveness	Up to 24 weeks after the loan's disbursement date ^b

Source: GAO analysis of Small Business Administration (SBA) information. | GAO-21-577

^aIf a borrower uses less than 60 percent of the loan proceeds on payroll costs, then the borrower would be eligible for partial forgiveness based on the percentage of proceeds spent on payroll costs.
^bPrior to June 5, 2020, the covered period was defined as 8 weeks after the loan's disbursement date.

As of May 31, 2021, lenders had made about 11.8 million PPP loans, totaling about \$800 billion. These lenders included nonbanks who had not previously participated in SBA programs.¹⁷ More than half of these loans were made during Round 2 of PPP (6.7 million totaling about \$278 billion). Of the 6.7 million loans approved in 2021, about 3.8 million (totaling about \$69 billion) were first draw loans and about 2.9 million (totaling about \$209 billion) were second draw loans to borrowers who received a PPP loan during 2020. SBA made about 5.1 million loans (totaling about \$522 billion) during Round 1 (April through August 2020).

¹⁷Existing 7(a) lenders and some other SBA lenders were automatically allowed to participate in PPP. Lenders who had not previously participated in a SBA program had to apply and be approved before they could participate in PPP. Nonbanks are broadly defined as institutions other than banks that offer financial services.

The Office of Capital Access, which manages SBA's other loan guarantee programs such as 7(a), is responsible for managing PPP. SBA has worked with the Department of the Treasury (Treasury) to implement the program. Among other things, Treasury consulted with SBA on program rules and was jointly responsible with SBA under the CARES Act for approving lenders new to SBA to issue PPP loans.

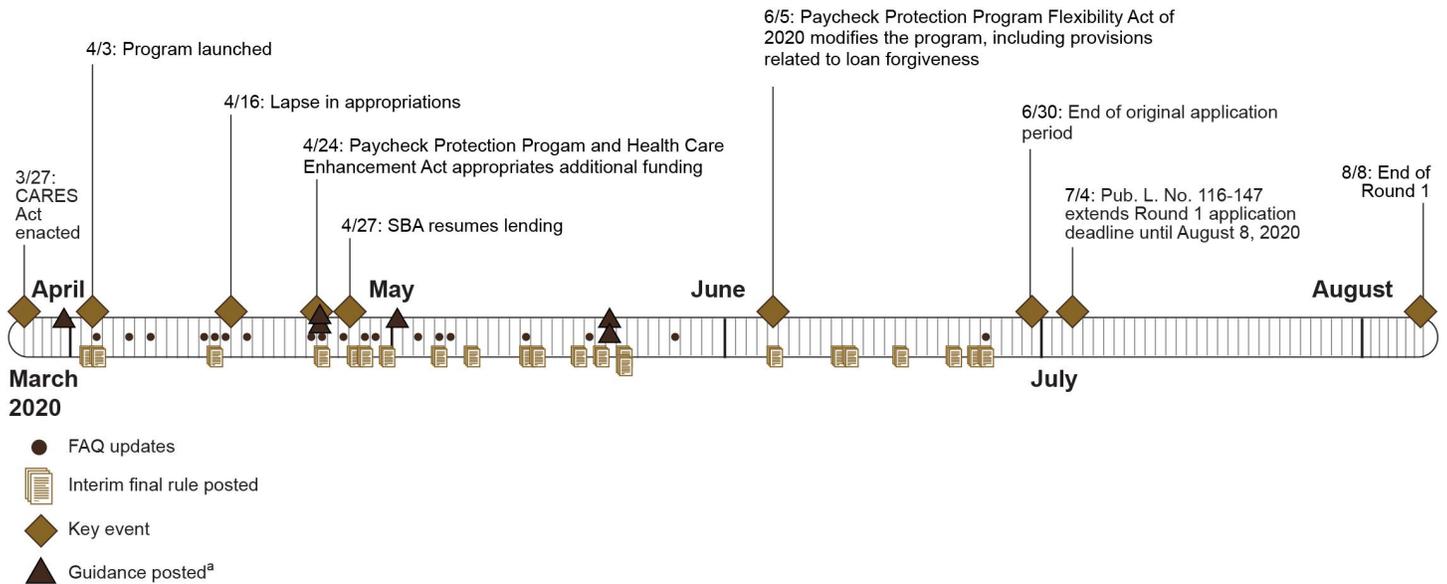
SBA's Initial Emphasis on Speed Contributed to Evolving Guidance and Program Integrity Challenges

SBA's Guidance Was Decentralized and Frequently Changed during Round 1 Loan Processing

In an effort to launch PPP quickly, SBA relied on an evolving set of program rules and guidance. Because it was an emergency program, SBA officials told us the agency did not issue a consolidated guidance document (such as standard operating procedure or program guide) when PPP was launched.

Instead, SBA relied on interim final rules, updates to FAQs, and procedural notices to implement PPP (see fig. 2). As of June 1, 2021, SBA had issued 30 interim final rules and 26 updates to its PPP FAQs. Of these, the majority (22 interim final rules and 19 FAQ updates) were made from March 31, 2020, when SBA issued the initial program guidance, through August 8, 2020 (the end of the first round). According to SBA officials, SBA and Treasury continued to develop and issue rules and guidance in an effort to be responsive to lenders and borrowers and to comply with statutory changes to the program.

Figure 2: Timeline for Paycheck Protection Program Round 1



Source: GAO analysis of legislation and Small Business Administration (SBA) documents. | GAO-21-577

Data table for Figure 2: Timeline for Paycheck Protection Program Round 1

Date	Description	Type
3/27/20	CARES Act enacted	Key event
3/31/20	Guidance posted	Guidance posted
4/2/20	FAQ update	FAQ update
4/3/20	FAQ update	FAQ update
4/3/20	Program launched (small businesses and sole proprietorships)	Key event
4/6/20	FAQ update	FAQ update
4/8/20	FAQ update	FAQ update
4/13/20	FAQ update	FAQ update
4/14/20	FAQ update	FAQ update
4/14/20	Interim final rule posted	Interim final rule posted
4/15/20	FAQ update	FAQ update
4/16/20	Lapse in appropriations	Key event
4/17/20	FAQ update	FAQ update
4/23/20	FAQ update	FAQ update
4/24/20	Paycheck Protection Program and Health Care Enhancement Act appropriates additional funding	Key event

Date	Description	Type
4/24/20	FAQ update	FAQ update
4/24/20	Interim final rule posted	Interim final rule posted
4/24/20	Guidance posted	Guidance posted
4/24/20	Guidance posted	Guidance posted
4/26/20	FAQ update	FAQ update
4/27/20	SBA resumes lending	Key event
4/27/20	Interim final rule posted	Interim final rule posted
4/28/20	Interim final rule posted	Interim final rule posted
4/28/20	FAQ update	FAQ update
4/29/20	FAQ update	FAQ update
4/30/20	Interim final rule posted	Interim final rule posted
5/1/20	Guidance posted	Guidance posted
5/3/20	FAQ update	FAQ update
5/5/20	FAQ update	FAQ update
5/5/20	Interim final rule posted	Interim final rule posted
5/6/20	FAQ update	FAQ update
5/8/20	Interim final rule posted	Interim final rule posted
5/13/20	FAQ update	FAQ update
5/13/20	Interim final rule posted	Interim final rule posted
5/14/20	Interim final rule posted	Interim final rule posted
5/18/20	Interim final rule posted	Interim final rule posted
5/19/20	FAQ update	FAQ update
5/20/20	Interim final rule posted	Interim final rule posted
5/21/20	Guidance posted	Guidance posted
5/21/20	Guidance posted	Guidance posted
5/22/20	Interim final rule posted	Interim final rule posted
5/22/20	Interim final rule posted	Interim final rule posted
5/27/20	FAQ update	FAQ update

Date	Description	Type
6/5/20	Paycheck Protection Program Flexibility Act of 2020 modifies the program, including provisions related to loan forgiveness	Key event
6/5/20	Interim final rule posted	Interim final rule posted
6/11/20	Interim final rule posted	Interim final rule posted
6/12/20	Interim final rule posted	Interim final rule posted
6/17/20	Interim final rule posted	Interim final rule posted
6/22/20	Interim final rule posted	Interim final rule posted
6/24/20	Interim final rule posted	Interim final rule posted
6/25/20	FAQ update	FAQ update
6/25/20	Interim final rule posted	Interim final rule posted
6/30/20	End of original application period	Key event
7/4/20	Pub L. No. 116-147 (extends Round 1 application deadline until August, 8, 2020)	Key event
8/8/20	End of round 1	Key event

Source: GAO analysis of legislation and Small Business Administration (SBA) documents. | GAO-21-577

^aThe term guidance includes items such as procedural notices.

Through these rules and guidance, SBA communicated decisions on its implementation of PPP. For example, SBA announced in its first interim final rule that borrowers must use at least 75 percent of the loan proceeds for payroll costs. Congress later modified some aspects of the program in response to SBA's implementation decisions, such as decreasing the amount that must be used for payroll costs to 60 percent. (See app. III for information on SBA's implementation of key program terms.)

Our survey of PPP lenders indicated that the changing guidance and its presentation in multiple documents of various types created challenges for these lenders during Round 1. We estimate that about 87 percent of PPP lenders thought changes in program rules and guidance were either very or moderately challenging when approving PPP loan applications

from borrowers.¹⁸ One survey respondent noted that the constantly changing guidance was particularly challenging because the bank was receiving many PPP applications at the same time and had to read dozens of pages of new guidance. Similarly, we estimate that 75 percent of lenders thought the lack of a central document containing the program's rules and guidance was either very or moderately challenging.¹⁹

The evolving guidance also likely contributed to confusion among applicants. We estimate that 67 percent of lenders thought that borrowers' lack of understanding of the program's terms and conditions was very or moderately challenging.²⁰ For example, one survey respondent stated that SBA issued too many interim final rules, which was extremely confusing for lenders and borrowers. Lenders also cited challenges with changing guidance for the loan forgiveness process, which we discuss later in this report.

SBA's Initial Implementation of PPP Contributed to Increased Risk of Improper Payments and Extensive Fraud

In an effort to help small businesses quickly, SBA put limited initial safeguards in place. This lack of initial safeguards contributed to the increased risk of improper payments and fraud that we and others have previously reported.

Limited Initial Safeguards for Loan Approval

In June 2020, we reported that SBA put limited safeguards in place for approval of PPP loans in an effort to get loans to borrowers quickly, and we recommended additional SBA oversight.²¹ For example, SBA's first interim final rule allowed lenders to rely on borrower self-certifications to

¹⁸The 95 percent confidence interval for this estimate is (84, 89). Survey respondents were asked to rate challenges using the following scale: very challenging, moderately challenging, somewhat challenging, not at all challenging, and do not know.

¹⁹The 95 percent confidence interval for this estimate is (72, 78).

²⁰The 95 percent confidence interval for this estimate is (63, 70).

²¹[GAO-20-625](#).

determine borrower eligibility and use of loan proceeds. SBA's requirements for lenders were limited to actions such as confirming receipt of borrower certifications and supporting payroll documentation—leaving the program more susceptible to fraudulent applications.²²

Although lenders were not required to conduct detailed underwriting of PPP applications, they had to apply relevant Bank Secrecy Act (BSA) program requirements.²³ SBA required lenders not previously subject to BSA requirements to establish a BSA compliance program and collect additional information for new customers to satisfy BSA requirements.²⁴ Many PPP lenders made loans predominantly to existing clients. Because these clients required the bank to conduct less due diligence, their applications could be processed more quickly. Based on our survey results, we estimate about two-thirds of PPP lenders made at least 76 percent of their loans to existing clients.²⁵ Twenty-three percent of lenders did not make any loans to borrowers with whom they had no prior relationship.²⁶

In April 2020, SBA and Treasury announced SBA would review loans of more than \$2 million to confirm borrower eligibility after the borrower applied for loan forgiveness. In May 2020, SBA released an interim final rule stating that it would review any PPP loan it deemed appropriate. However, SBA provided few details on these reviews at that time. Our

²²As previously noted, Congress amended and expanded a CARES Act hold harmless provision for lenders in the Consolidated Appropriations Act, 2021. Pub. L. No. 116-260, div. N, tit. III, § 305, 134 Stat. 1182, 1996-97 (2020).

²³The Bank Secrecy Act requires banks and other financial institutions to take precautions against money laundering and other illicit financial activities by conducting due diligence activities and informing Treasury of suspicious activity by their customers. Because of the limited loan underwriting, lenders and SBA have less information from applicants to detect errors or fraud. The first interim final rule's requirement that lenders follow applicable BSA requirements may require lenders to collect additional identifying information from borrowers before approving a PPP loan.

²⁴SBA requires that entities not currently subject to BSA requirements establish an anti-money laundering compliance program equivalent to that of a comparable federally regulated institution before engaging in PPP lending activities (including making PPP loans to eligible new or existing customers).

²⁵The 95 percent confidence interval for this estimate is (65, 71). Ten percent of lenders estimated they made less than 50 percent of their PPP loans to clients with whom they had a previous depository or lending relationship. The 95 percent confidence interval for this estimate is (8, 12).

²⁶The 95 percent confidence interval for this estimate is (20, 26).

June 2020 report concluded that because SBA had limited time to implement safeguards for the PPP loan approval process and assess program risks, ongoing oversight would be crucial.

Therefore, we recommended that SBA develop and implement plans to identify and respond to risks in PPP to ensure program integrity, achieve program effectiveness, and address potential fraud, including in loans of \$2 million or less. SBA neither agreed nor disagreed with our recommendation at that time. (We discuss the actions SBA subsequently took in response to this recommendation later in this report.)

Resulting Increase in Risk of Improper Payments and Fraud

We and others have reported on the increased risk of improper payments and fraud in PPP because of the limited initial safeguards.²⁷

- **Estimating improper payments.** As we reported in November 2020, it is especially important for agencies with large appropriated amounts, like SBA, to quickly estimate their improper payments when there are concerns improper payments could be widespread.²⁸ Because SBA had not done this for PPP, we recommended SBA expeditiously estimate improper payments and report estimates and error rates for PPP. SBA neither agreed nor disagreed with our recommendation at that time, but stated it was planning to conduct improper payment testing for PPP. In February 2021, SBA officials told us the agency had submitted a sampling plan for this testing to OMB, which would be used to estimate both improper payments and error rates for PPP. According to SBA officials, SBA anticipates starting the improper payment analysis in the fourth quarter of fiscal year 2021.
- **Financial statement audit.** In December 2020, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2020 consolidated financial statements, meaning the auditor was unable to express an opinion because of insufficient

²⁷Improper payments are payments that should not have been made or were made in the incorrect amount, and may suggest that a program is vulnerable to fraud. While an improper payment may be the result of fraudulent activity, not all improper payments are the result of fraud. Fraud involves obtaining something of value through willful misrepresentation. The judicial or other adjudicative system determines whether an act is fraud.

²⁸[GAO-21-191](#).

evidence.²⁹ More specifically, the auditor reported SBA was unable to provide adequate documentation to support a significant number of transactions and account balances related to PPP as a result of inadequate processes and controls. The auditor also found SBA did not design and implement adequate controls for PPP approvals, and made several recommendations to improve the controls.

- **Suspicious activity reports.** In January 2021, we reported on potentially suspicious activity in PPP.³⁰ From April through October 2020, financial institutions filed more than 21,000 suspicious activity reports (SAR) related to PPP with the Financial Crimes Enforcement Network.³¹ These reports identified multiple types of potentially suspicious activity related to PPP, such as indicators of identity theft, rapid movement of funds, and forgeries. Although the filing of a SAR does not necessarily mean that fraud has occurred, law enforcement agencies use these reports to help support investigations, such as those related to PPP fraud.³² More than 1,400 institutions had filed SARs related to PPP from April through October 2020, and the number of SARs filed generally increased during this period.³³
- **OIG investigation.** In March 2021, the SBA OIG reported that SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans.³⁴ As a result, lenders made more than one PPP

²⁹Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report Fiscal Year 2020*.

³⁰[GAO-21-265](#).

³¹For our January 2021 report, we analyzed aggregate SAR data across U.S. financial institutions from April through October 2020. These data did not include identifying information on financial institutions that filed SARs, such as PPP lender status.

³²Certain financial institutions are required to file SARs if a transaction involves or aggregates at least a certain dollar amount in funds or other assets (generally \$5,000), and the institution knows, suspects, or has reason to suspect that the transaction is designed to evade any BSA requirements or involves money laundering, tax evasion, or other criminal activities. Law enforcement agencies query Financial Crimes Enforcement Network systems as part of their investigations of potential financial and other crimes.

³³Banks and other financial institutions must file a SAR no later than 30 calendar days after the date of initial detection of facts that may constitute a basis for filing a SAR. If no suspect was identified on the date of detection, the financial institution may delay filing a SAR for an additional 30 calendar days to identify a suspect, but the report must be filed no more than 60 calendar days after the date of initial detection.

³⁴Small Business Administration, Office of Inspector General, *Flash Report: Duplicate Loans Made Under the Paycheck Protection Program*, Report No. 21-09 (Washington, D.C.: Mar. 15, 2021).

loan disbursement to 4,260 borrowers with the same tax identification number and borrowers with the same business name and address. These disbursements totaled about \$692 million for loans approved from April 3 through August 9, 2020 (Round 1 of PPP). The OIG made four recommendations to SBA, including that SBA review controls for all PPP loan reviews to ensure duplicate loans are not forgiven and not subject to an SBA guarantee, as appropriate.³⁵ SBA agreed with all of the recommendations. In response, SBA noted it had implemented enhancements to the loan origination process, which included data edits and validations that are done before loans are entered in the SBA loan processing system.

Potential Loan Fraud Patterns

From May 2020 to March 2021, DOJ publicly announced charges in 134 fraud-related cases associated with PPP loans.³⁶ We found that 103 of the 5,482 PPP lenders issued loans to businesses associated with fraud-related cases. Specifically, these lenders issued 431 loans (totaling an estimated \$181.6 million) to borrowers who were later charged with bank fraud, wire fraud, money laundering, or identity theft charges, among others.³⁷

We also found that five of 103 lenders issued almost 50 percent of the loans to borrowers charged by DOJ with fraud-related crimes, accounting for an estimated \$93 million. These lenders issued 17 percent of all PPP loans and included small, medium, and large banks (based on asset

³⁵More specifically, the SBA OIG recommended that SBA (1) review identified potential duplicate disbursements for eligibility and take action to recover any improper payments, (2) review controls related to all PPP loan reviews to ensure that duplicate loans are not forgiven and not subject to an SBA guarantee, as appropriate, (3) strengthen E-Tran controls for future PPP-type programs to ensure the controls align with program requirements and are active at all times, and (4) strengthen controls and guidance for lenders to ensure lenders meet program requirements for future PPP type programs.

³⁶We identified fraud-related cases from DOJ press releases and other public information, which may not include all cases pursued by DOJ. Additionally, investigative and prosecutorial discretion may factor into the cases that are made public. As a result, these cases may not be representative of all cases pursued by DOJ.

³⁷As noted earlier, there were about 5.1 million PPP loans made from April 2020 to August 2020 (Round 1).

size), and one nonbank lender.³⁸ Further, one of these lenders issued 18 percent of loans in fraud-related cases while issuing two percent of all PPP loans. Another lender issued 11 percent of loans in fraud-related cases while issuing 5 percent of all PPP loans. Together, these two lenders accounted for almost 30 percent of loans in fraud-related cases and almost 7 percent of all PPP loans.

PPP lenders involved in fraud-related cases were more likely to be high volume lenders when compared to all PPP lenders. Although all lenders lent under expedited timeframes with reduced due diligence requirements, the lenders' comparably high volume of loans during these compressed timeframes might indicate less thorough review processes and increased fraud risks.³⁹ Lenders that issue a high volume of loans within a given timeframe could have a higher fraud risk in their portfolios, as they may have fewer resources per loan to conduct borrower due diligence compared to a similarly situated lender that made fewer loans. We found that 72 percent (74 of 103) of the lenders in fraud-related cases were high volume lenders.⁴⁰

Initial, Informal SBA Assessment of Fraud Risks

We reported in March 2021 that SBA did not conduct a comprehensive fraud risk assessment in alignment with leading practices, and it did not document its antifraud strategy for PPP (which would outline a strategic approach to managing fraud risks).⁴¹ According to SBA officials, because of the rapid response required to execute the program, SBA conducted an informal fraud risk assessment in late spring and early summer of 2020. This assessment included an identification of potential weaknesses

³⁸Using SBA's lender asset categories, we defined small banks as banks with asset sizes less than \$10 billion, medium banks with assets from \$10 billion to \$50 billion, and large banks with assets over \$50 billion.

³⁹As previously mentioned, the initial PPP appropriation was exhausted within the first 2 weeks of the program.

⁴⁰We define a high volume lender as a lender that issued more loans than the 75th percentile of all lenders.

⁴¹[GAO-21-387](#). In July 2015, we issued the Fraud Risk Framework, which provides a comprehensive set of key components and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way. Among other things, the framework recommends that agencies plan regular fraud risk assessments that are tailored to the program, and that these assessments be conducted when there are changes to the program. GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 18, 2015).

in internal control processes by subject matter experts in the program office. The agency did not document findings from the assessment.

In February 2021, SBA officials told us the agency would complete a formal fraud risk assessment, but they did not provide a firm date for when they would complete such an assessment. Consequently, we recommended that SBA (1) conduct and document a fraud risk assessment for PPP and (2) develop a strategy that outlines specific actions to monitor and manage fraud risks in the program. SBA agreed with our recommendations. In May 2021, SBA officials told us that the agency had begun conducting a fraud risk assessment for its CARES Act programs, including PPP. Agency officials also told us that they had not yet designated an anti-fraud entity to lead fraud risk management activities across SBA, but the agency intends to present a formal proposal establishing the appropriate anti-fraud entity for consideration and approval before the end of fiscal year 2021.⁴²

SBA's Implementation of Additional Controls for Round 2 Delayed Some Loans

In an effort to prevent potential fraud in PPP and consistent with our June 2020 recommendation, SBA put in place additional controls for first and second draw loans in Round 2. SBA's implementation of these controls initially caused delays for some loans.

- **New (first draw) loans.** SBA added front-end compliance checks for Round 2 applications. During the initial round of PPP, SBA did not conduct any review of loan or borrower information beyond looking for duplicate applications before issuing an SBA loan number to the lender making the loan.⁴³ But during Round 2, SBA used an automated screening system to identify anomalies or attributes that may indicate noncompliance with eligibility requirements, fraud, or abuse after the lender requested a loan number but before the lender

⁴²A leading practice identified in our Fraud Risk Framework is that an agency designate an entity within its structure to design and oversee fraud risk management activities. The dedicated entity could be an individual or a team, depending on the needs of the agency.

⁴³SBA issues a loan number when it agrees to guarantee the loan.

made the loan.⁴⁴ According to SBA officials and documentation, SBA compared loan applications against Treasury's Do Not Pay service and public records.⁴⁵ These validation efforts included determining whether the business was in operation as of February 15, 2020 (a requirement to be eligible for a PPP loan). If the check identified a potential issue, a compliance check error message identifying the issue would be placed on the loan application until the issue was resolved.

- **Second draw loans.** Starting in Round 2, small businesses could receive a second PPP loan if they met certain conditions.⁴⁶ According to SBA officials, second draw PPP loans were put through the same automated screening process used for Round 2 first loans. If this screening uncovered an issue, a compliance check error message would be sent to the lender. In addition, if there was a hold code placed on the first draw loan as a result of SBA's screening of Round 1 loans, the application for a second draw loan would be delayed until the issue was resolved, if appropriate. In fall 2020, SBA reviewed all Round 1 loans using an automated screening process that compared first loan data against publicly available information and applied eligibility and fraud detection rules, as discussed below. For instance, compliance check error messages or hold codes would be issued if there were discrepancies in the applicant's name or if the business was no longer active.

The addition of the compliance checks for Round 2 first and second draw loans and the hold codes on Round 1 loans created some delays. According to SBA officials, it takes 24–48 hours to complete these compliance checks after the lender submits the loan guarantee application information to SBA. Representatives of the four lender associations we interviewed told us the additional controls created confusion among lenders and delays in closing loans, in part because

⁴⁴The automated screening process used for new loans in 2021 was a modified version of the automated screening process used to review loans made in 2020 (as discussed later in this report).

⁴⁵Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

⁴⁶SBA published information on its review of second draw loans in an interim final rule on January 14, 2021. Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans, 86 Fed. Reg. 3712 (Jan. 14, 2021).

lenders did not know of the additional controls in advance.⁴⁷ In addition, the representatives told us their members were unable to get responses from SBA when they had questions related to the hold codes.

SBA issued three procedural notices in early 2021 to try to lessen the delays caused by the hold codes and the compliance check error messages.⁴⁸ Under the updated procedures, lenders could certify that they obtained, reviewed, and retained in their files sufficient documentation to resolve certain hold codes or compliance check error messages.⁴⁹ Once certified, the application could proceed to the next stage of loan processing. According to SBA officials, as of March 2021, SBA was issuing loan numbers for more than 96 percent of new loans within 48 hours of submission, and there were about 190,000 applications with outstanding hold codes.

SBA Has Made More Than 3 Million Loan Forgiveness Determinations, but Lenders Cited Challenges with the Forgiveness Process and SBA Lacks Processes for Certain Unforgiven Loans

SBA updated its rules and guidance for the loan forgiveness process several times. As of May 17, 2021, SBA had made forgiveness

⁴⁷In an interim final rule on second draw loans published on January 14, 2021, SBA included information on how SBA would process applications with an unresolved issue on the applicant's first PPP loan. Business Loan Program Temporary Changes; Paycheck Protection Program Second Draw Loans, 86 Fed. Reg. 3712, 3716-17, 3722 (Jan. 14, 2021).

⁴⁸See SBA Procedural Notice No. 5000-20083, SBA Paycheck Protection Platform Procedures for Addressing Unresolved Issues on Borrower First Draw Loans (Jan. 26, 2021); SBA Procedural Notice No. 5000-20092, Revised SBA Paycheck Protection Platform Procedures for Addressing Hold Codes on First Draw PPP Loans and Compliance Check Error Messages on First Draw PPP Loans and Second Draw PPP Loans (Feb. 10, 2021); SBA Procedural Notice No. 5000-808216, Second Notice of Revised Procedures for Addressing Hold Codes and Compliance Check Error Messages on PPP Loans (Mar. 29, 2021).

⁴⁹Some hold codes that lenders could certify and resolve included the applicant having a potentially disqualifying criminal history or bankruptcy. However, some hold codes could not be cleared by the lender and must instead be cleared by SBA, based upon additional documentation provided by the lender. These included hold codes indicating the business was potentially ineligible because of its size or number of employees.

determinations on more than 3 million (about 64 percent) Round 1 loans and had generally made payments most quickly to lenders on smaller loans. PPP lenders we surveyed cited several challenges they experienced during the loan forgiveness process. We found SBA has not developed a process by which PPP lenders can claim the SBA guarantee if a borrower ceases operations or defaults on the loan. SBA also has not implemented a CARES Act provision requiring SBA to purchase PPP loans in advance of loan forgiveness.

Loan Forgiveness Rules Established a Three-Step Process

Loan Forgiveness Rules and Guidance

SBA provided some information on the loan forgiveness process in its first interim final rule posted on April 2, 2020, and then posted an interim final rule specifically on loan forgiveness on May 22, 2020.⁵⁰ The agency has since provided further information several times by issuing additional interim final rules, procedural notices, a set of responses to FAQs on loan forgiveness, and forgiveness applications and instructions. The updates reflect legislative changes to the program and SBA's attempts to clarify or simplify aspects of the process.

For example, in June 2020, SBA issued interim final rules to implement changes made by the Paycheck Protection Program Flexibility Act.⁵¹ The interim final rules reduced the percentage of payroll expenses necessary to qualify for full loan forgiveness from 75 percent to 60 percent and extended the maturity of PPP loans from 2 years to 5 years. In October 2020, SBA issued another interim final rule to simplify the review and forgiveness processes for loans of \$50,000 or less and released a simplified loan forgiveness application.⁵² SBA also updated its loan forgiveness FAQ responses on topics such as which application sole proprietors should use, eligible payroll expenses, and how borrowers should calculate reductions in their loan forgiveness amount arising from reductions in employee salary or hourly wages.

⁵⁰85 Fed. Reg. 20,811 (Apr. 15, 2020); 85 Fed. Reg. 33,004 (June 1, 2020).

⁵¹85 Fed. Reg. 36,997 (June 19, 2020); 85 Fed. Reg. 38,304 (June 26, 2020).

⁵²85 Fed. Reg. 66,214 (Oct. 19, 2020).

Borrowers are generally eligible for full loan forgiveness of the full principal amount if (1) they have used at least 60 percent of the loan proceeds on eligible payroll costs and (2) the balance has been spent on other eligible expenses, such as business rent payments for leases in effect before February 15, 2020, mortgage interest payments for mortgages incurred prior to February 15, 2020, and utility payments.⁵³ In February 2021, SBA issued an interim final rule that consolidated loan forgiveness information from prior rules.⁵⁴

Loan Forgiveness Process

Under SBA rules and guidance, the loan forgiveness process has three steps. First, the borrower submits the appropriate forgiveness application and documentation to the lender.⁵⁵ A borrower may apply any time on or before the loan maturity date if the borrower has used all the loan funds for which the borrower requests forgiveness.⁵⁶ Second, the lender has 60 days from receipt of the application to review and submit its forgiveness decision (approved in full, approved in part, or denied) to SBA.

Third, according to SBA officials, loans that are not identified for additional review, as discussed below, are automatically paid by SBA. In general, SBA must remit the forgiveness amount to the lender within 90 days of that amount being determined. In its interim final rule on loan

⁵³The forgiveness amount may be reduced if certain conditions are not met. For example, payroll costs must account for at least 60 percent of the total PPP forgiveness amount, salary or wage reduction can generally be no more than 25 percent during the covered period, and the borrower must generally maintain the average number of full-time employees during the covered period. Borrowers are allowed to incur these expenses over a period of up to 24 weeks.

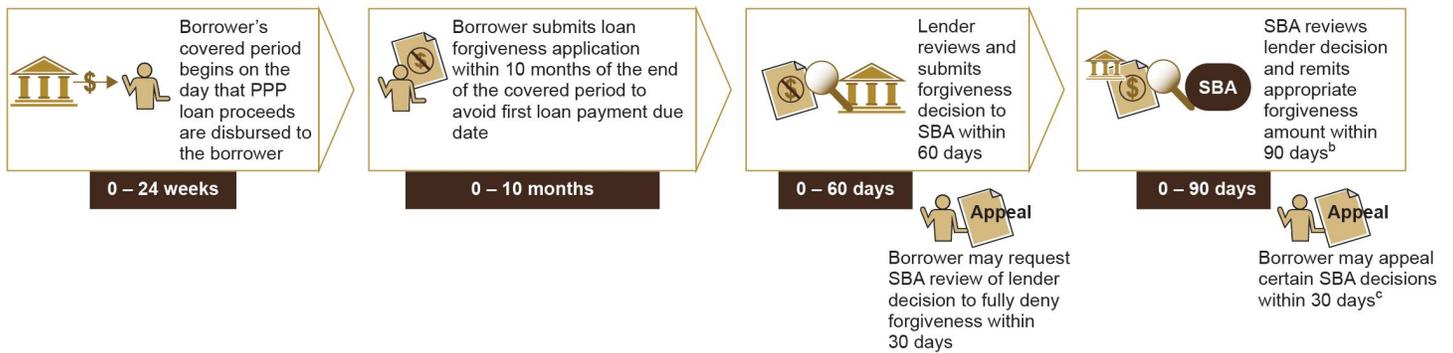
⁵⁴86 Fed. Reg. 8283 (Feb. 5, 2021).

⁵⁵SBA has issued three loan forgiveness forms—SBA Forms 3508, 3508EZ, and 3508S. The 3508EZ and the 3508S are shortened versions of the application for borrowers who meet specific requirements. Required documentation varies depending on the form the borrower uses. For each form, the borrower is required to maintain, but not submit, certain documents. All loans of \$2 million or more will undergo a SBA loan review and may require additional documentation.

⁵⁶For loans made before June 5, 2020, the maturity is 2 years; however, borrowers and lenders may mutually agree to extend the maturity of such loans to 5 years. For loans made on or after June 5, 2020, the maturity is 5 years. As amended by subsequent legislation, the covered period for loan forgiveness means the period beginning on the date the loan is originated and ending on a date of the borrower's choosing between 8 and 24 weeks after the loan's origination.

forgiveness published in June 2020, SBA stated it will extend this time frame if the loan or forgiveness application is under SBA review.⁵⁷ As shown in figure 3, PPP loan forgiveness will extend into 2022 or beyond for Round 1 loans.

Figure 3: Paycheck Protection Program (PPP) Loan Forgiveness Process and Timeline for Round 1 Loans



Maximum time frame for PPP loan forgiveness^a

8/8/20	12/31/20	10/31/21	12/30/21	3/30/22
Borrower submits PPP loan application	End of borrower covered period	Borrower submits loan forgiveness application or must begin making payments	Lender submits forgiveness decision to SBA	SBA reviews lender decision and remits appropriate forgiveness amount ^b

Source: GAO analysis of Small Business Administration (SBA) regulations and guidance. | GAO-21-577

Text for Figure 3: Paycheck Protection Program (PPP) Loan Forgiveness Process and Timeline for Round 1 Loans

Date	Milestone
July 16 to August 8, 2020	PPP loan to borrower
December 31, 2020	End of covered period for PPP loans disbursed after July 15, 2020
October 31, 2021	Loan forgiveness applications must be submitted by borrowers within 10 months of the covered period end [or the borrower has to begin making payments]

⁵⁷85 Fed. Reg. 33,004, 33,005 (June 1, 2020). SBA and Treasury officials told us they interpreted the CARES Act requirement to remit funds within 90 days to be subject to SBA's review of loans.

Date	Milestone
December 30, 2021	Lender reviews and submits forgiveness decision to SBA within 60 days
December 30, 2021	Borrower may request SBA review of lender decision to fully deny forgiveness within 30 days
March 30, 2022	SBA reviews lender decision and remits appropriate forgiveness amount within 90 days
Late April or early May 2022	Borrower may appeal SBA's loan forgiveness decision within 30 calendar days of notice of that decision

Source: GAO analysis of Small Business Administration (SBA) regulations and guidance. | GAO-21-577

^aThe timeline for PPP loan forgiveness may take longer if the borrower waits until after the deferment period to apply for loan forgiveness.

^bSBA's Loan Review Procedures Interim Final Rule subjected the 90-day remittance deadline to any SBA review of the loan or loan application. 85 Fed. Reg. 33,010, 33,013 (June 1, 2020).

^cA borrower may appeal one of four final SBA loan review decisions to SBA's Office of Hearings and Appeals: (1) the borrower was ineligible for the loan, (2) the borrower was ineligible for the loan amount received or used the loan proceeds for unauthorized uses, (3) the borrower is not eligible for loan forgiveness in the amount determined by the lender, or (4) the borrower is ineligible for PPP loan forgiveness in any amount when the lender has issued a full denial decision to SBA.

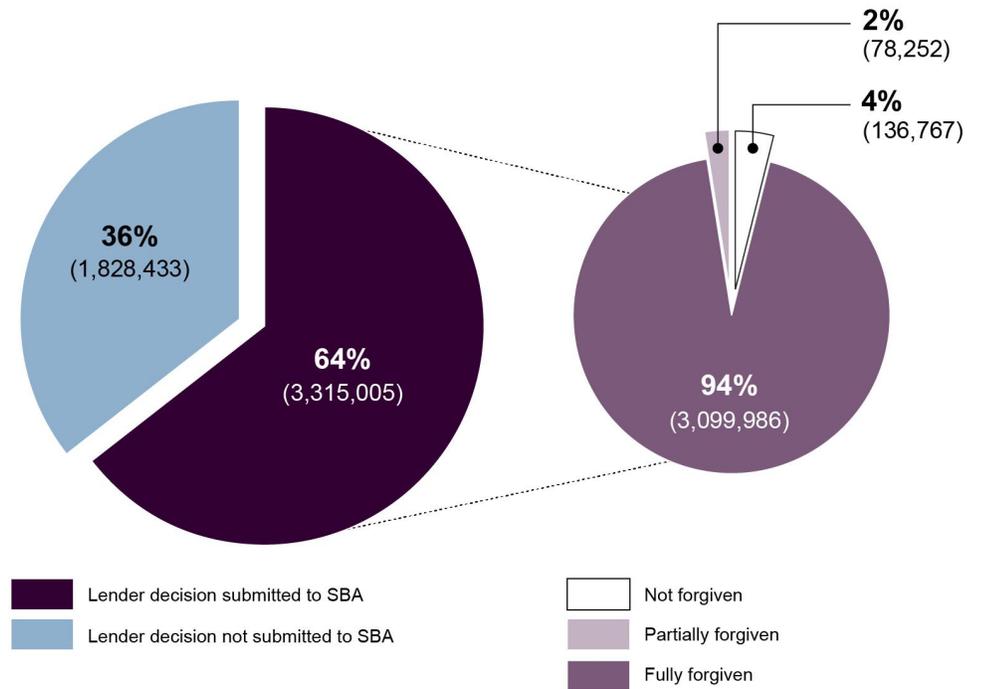
SBA Has Made a Forgiveness Determination on 64 Percent of Round 1 Loans, and Generally Paid Smaller Loans Quickest

As of May 17, 2021, SBA had made loan forgiveness determinations on about 3.3 million loans (64 percent of the 5.1 million loans made during Round 1).⁵⁸ As shown in figure 4, of these 3.3 million applications, about

⁵⁸According to SBA data, as of May 24, 2021, lenders had generally submitted and SBA forgave between \$5 billion and \$15 billion in loan forgiveness applications each week from November 2020 through May 2021.

3.1 million loans (94 percent) received full forgiveness, about 78,000 loans (2 percent) received partial forgiveness, and about 137,000 loans (4 percent) received no forgiveness. As of that time, SBA had not yet received loan forgiveness decisions from lenders for about 1.8 million loans.⁵⁹

Figure 4: SBA’s Loan Forgiveness Determinations on PPP Loans Made during Round 1, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Data for Figure 4: SBA’s Loan Forgiveness Determinations on PPP Loans Made during Round 1, as of May 17, 2021

- 3,315,005 Lender decision submitted to SBA
 - 1,828,433 Lender decision not submitted to SBA
- Of the 3,315,005 decisions submitted to SBA**
- 136,767 not forgiven

⁵⁹Borrowers may not have submitted loan forgiveness applications to their lenders for the outstanding loans.

- 78,252 partially forgiven
- 3,099,986 fully forgiven

Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

The following are characteristics of the lenders that submitted the approximately 3.3 million loan forgiveness decisions on which SBA had acted, as of May 17, 2021:

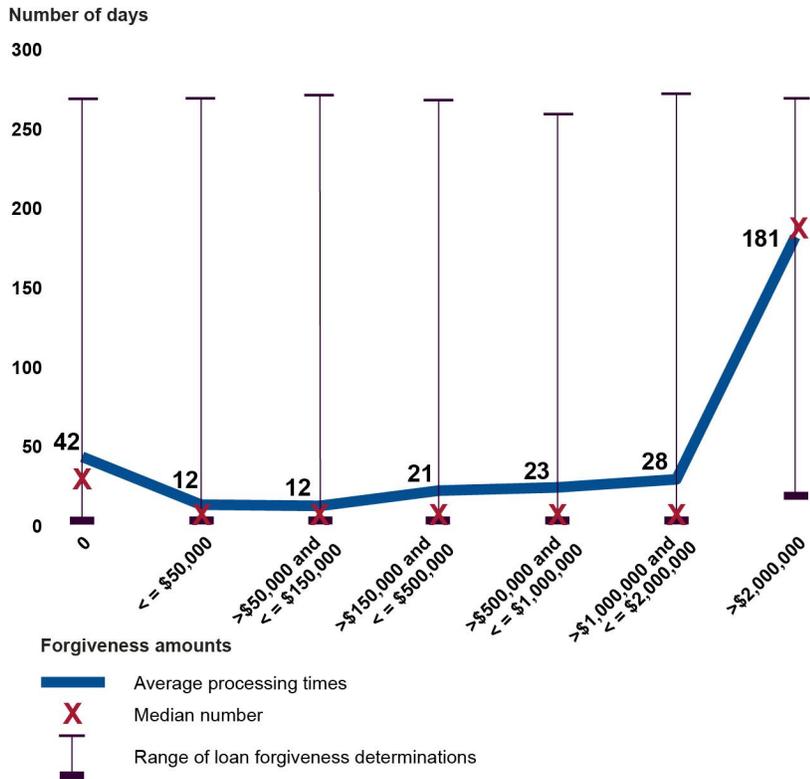
- About 49 percent of the loan forgiveness decisions were submitted by lenders with less than \$10 billion in assets.
- Almost all (about 96 percent) of the loan forgiveness decisions were submitted by banks and credit unions.
- About 80 percent were submitted by lenders with a prior relationship with SBA.

Under the CARES Act, SBA generally must remit any loan forgiveness funds to the lender within 90 days of the date on which the forgiveness amount is determined.⁶⁰ Our analysis of SBA data found that actual times varied some based on loan size (see fig. 5). We measured the time from the date the lender submitted its decision to SBA to the date SBA remitted payment to the lender. Overall, it took SBA an average of 13 days from the time it received a forgiveness decision to remit payment to the lender. But as of May 17, 2021, SBA had exceeded a processing time of 90 days on more than 63,000 loans (about 1.9 percent of submitted loan forgiveness decisions). SBA completed its determination and remitted loan forgiveness payments, on average, in 23 days or less for loans of \$1 million or less. However, this process took an average of 181 days for loans of more than \$2 million, which receive additional reviews.⁶¹

⁶⁰SBA's Loan Review Procedures Interim Final Rule subjected the 90-day remittance deadline to any SBA review of the loan or loan application. 85 Fed. Reg. 33,010, 33,013 (June 1, 2020).

⁶¹According to Treasury officials, it was prudent for SBA to take additional time to review the largest loans given the additional risk associated with these loans.

Figure 5: Range and Average Number of Days by Forgiveness Amount for SBA to Process PPP Forgiveness Payments to Lenders, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Data table for Figure 5: Range and Average Number of Days by Forgiveness Amount for SBA to Process PPP Forgiveness Payments to Lenders, as of May 17, 2021

	Minimum	Maximum	Mean	Median
"0"	2	188	42.28	29
<= \$50,000	1	268	12.17	6
>\$50,000 and <= \$150,000	2	270	11.41	6
>\$150,000 and <= \$500,000	2	267	21.01	6
>\$500,000 and <= \$1,000,000	2	258	23.04	6
>\$1,000,000 and <= \$2,000,000	2	271	28.12	6
>\$2,000,000	18	268	180.75	187

Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Note: We limited our analysis to lender decisions on Round 1 PPP loans for which SBA had made a determination.

We found that SBA generally processed and remitted payments for smaller sized loans more quickly than it did for the largest loans. For example, of the loans that SBA processed in 5 days or less, 68 percent were loans with values of \$50,000 or less (see table 2). In contrast, it took SBA at least 91 days to review almost all of the forgiveness decisions for loans of at least \$2 million.⁶² Processing smaller forgiveness applications more quickly seems to be in line with decisions SBA made to expedite the review process. In October 2020, SBA issued an interim final rule generally allowing borrowers of a PPP loan of \$50,000 or less to use a simplified loan forgiveness process and application form.⁶³ In addition, as discussed more below, contractor officials told us SBA expedited the review process by, where appropriate, removing low-risk alerts connected to loans under \$150,000 that may have delayed loan forgiveness processing.

Table 2: SBA Processing Times for PPP Loan Forgiveness Payments by Forgiveness Amount, as of May 17, 2021

Forgiveness amount (dollars)	Number and percentage processed in 0–5 days	Number and percentage processed in 6–10 days	Number and percentage processed in 11–50 days	Number and percentage processed in 51–90 days	Number and percentage processed in 91–200 days	Number and percentage processed in more than 200 days
≥ 2,000,000	0 (0%)	0 (0%)	8 (0%)	3 (0%)	607 (1%)	220 (29%)
≥ 1,000,000 and < 2,000,000	8,178 (1)	11,459 (1)	5,541 (1)	3,219 (3)	3,174 (5)	69 (9)
≥ 500,000 and < 1,000,000	19,086 (2)	26,504 (2)	11,827 (2)	6,001 (4)	4,706 (8)	73 (10)
≥ 150,000 and < 500,000	83,409 (8)	115,708 (8)	46,766 (10)	22,663 (16)	17,131 (27)	174 (23)
> 50,000 and < 150,000	248,113 (22)	305,022 (22)	81,135 (17)	25,961 (19)	7,612 (12)	60 (8)
≤ 50,000	745,241 (68)	928,073 (67)	339,234 (70)	81,682 (59)	29,271 (47)	171 (22)

⁶²According to SBA officials, SBA did not finalize the procedures for reviews of loans of \$2 million or more until January 2021.

⁶³Business Loan Program Temporary Changes: Paycheck Protection Program—Additional Revisions to Loan Forgiveness and Loan Review Procedures Interim Final Rules, 85 Fed. Reg. 66,214 (Oct. 19, 2020).

Forgiveness amount (dollars)	Number and percentage processed in 0–5 days	Number and percentage processed in 6–10 days	Number and percentage processed in 11–50 days	Number and percentage processed in 51–90 days	Number and percentage processed in 91–200 days	Number and percentage processed in more than 200 days
Total	1,104,027 (100%)	1,386,766 (100%)	484,511 (100%)	139,529 (100%)	62,501 (100%)	767 (100%)

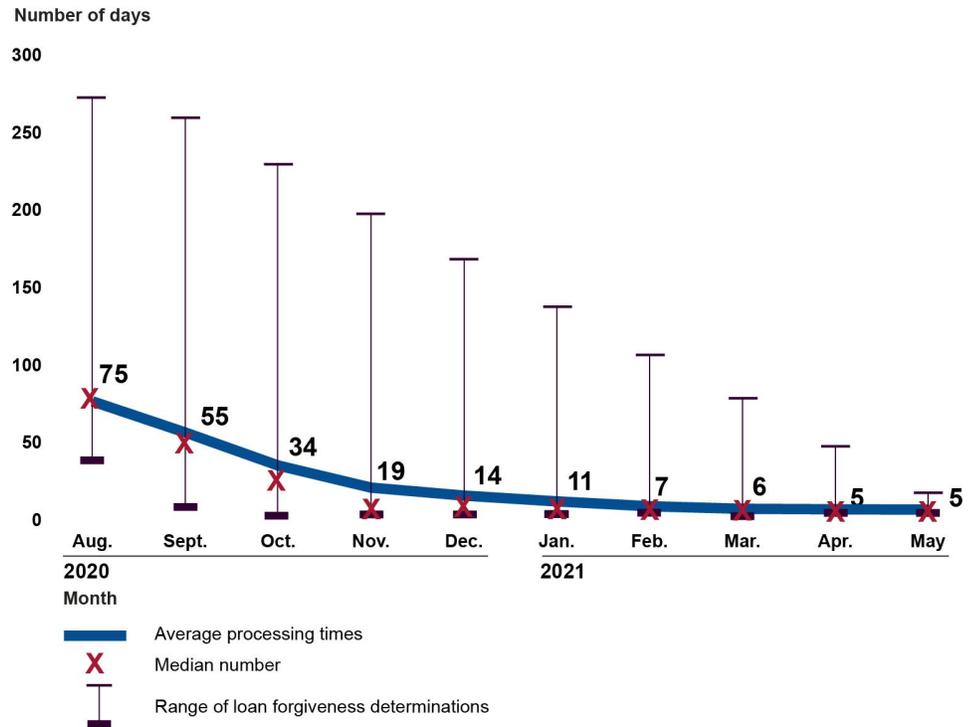
Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Notes: We limited our analysis to lender decisions on Round 1 PPP loans for which SBA had made a determination. We excluded 136,767 PPP loans that received no forgiveness and 137 loans with missing or incomplete information from our analysis. Percentages are determined by column and may not add to 100 due to rounding.

According to SBA officials, there are several reasons why SBA may have exceeded 90 days to make a forgiveness determination. First, officials said SBA did not start conducting reviews of loans less than \$2 million until early November 2020 and did not start conducting reviews of loans of \$2 million or more until January 2021, even though some lenders had begun submitting forgiveness decisions in August 2020.⁶⁴ We found that it took SBA an average of 75 days to process loan forgiveness decisions received in August 2020 (see fig. 6). In contrast, it took SBA an average of 5 days for decisions received in April 2021. Second, it took time for SBA to approve additional staff for the contractor so that it could start performing the initial review of lender decisions. Finally, some lenders submitted incomplete documentation, and SBA had to wait for additional documentation to be provided before reviewing the application. SBA officials told us they were putting together a plan to address all loans exceeding 90 days, with the goal of addressing the remaining loans within 45 days.

⁶⁴According to SBA officials, SBA began making forgiveness payments in early October 2020 on loans that did not undergo a review.

Figure 6: Range and Average Number of Days, by Month Submitted, for SBA to Process PPP Forgiveness Payments to Lenders, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Data table for Figure 6: Range and Average Number of Days, by Month Submitted, for SBA to Process PPP Forgiveness Payments to Lenders, as of May 17, 2021

	Minimum	Maximum	Mean	Median
Aug.	37	271	74.99	75
Sept.	7	258	54.9	48
Oct.	1	228	33.6	24
Nov.	2	196	19.34	6
Dec.	2	167	14.19	7
Jan.	2	136	10.46	6
Feb.	3	105	7.31	6
Mar.	1	77	5.68	6
Apr.	3	46	5.35	5
May	3	16	5.12	5

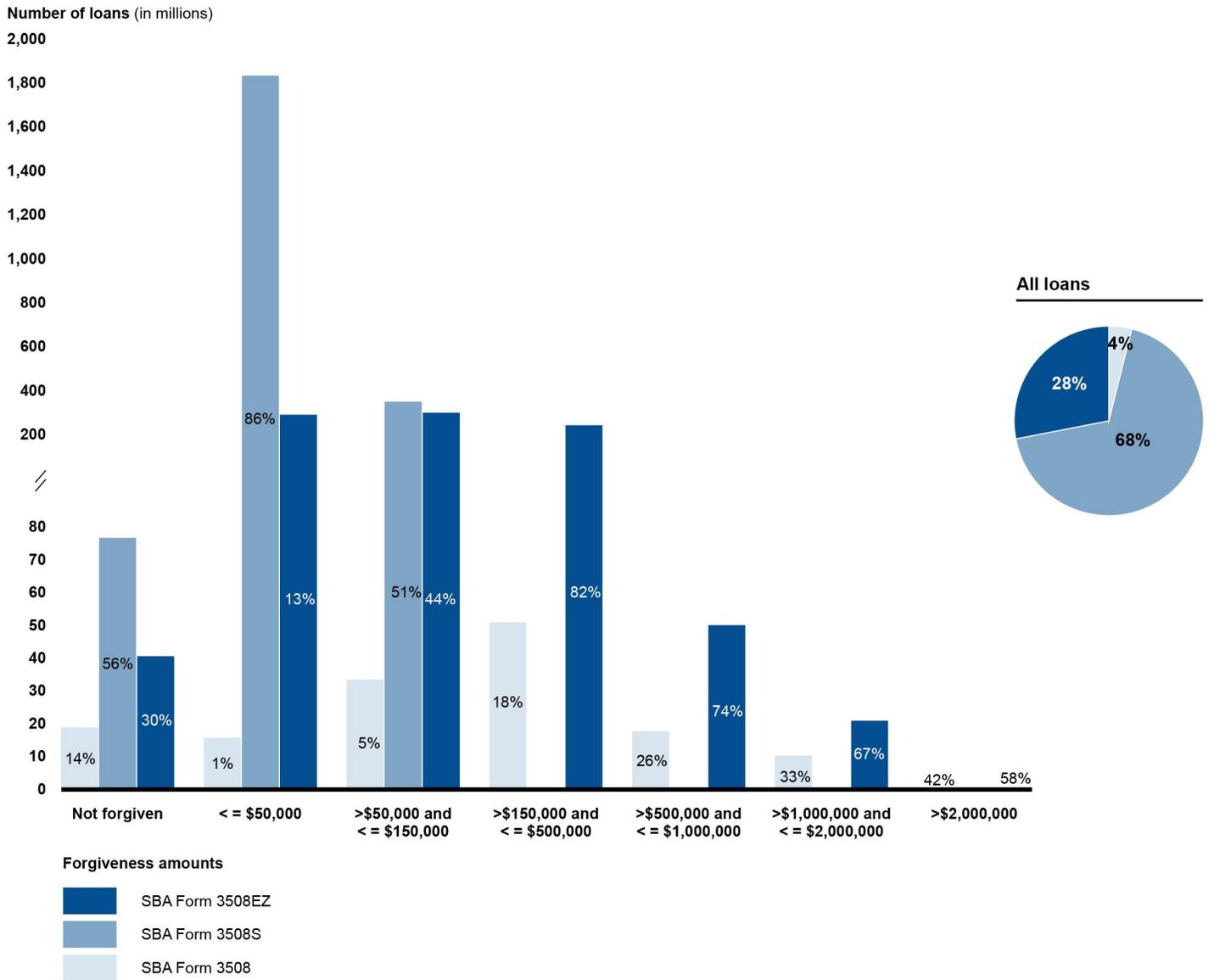
Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Note: We limited our analysis to lender decisions on Round 1 PPP loans for which SBA had made a determination.

Our analysis of SBA data found that about two-thirds of all borrowers (68 percent) that had applied for loan forgiveness used the simplest loan forgiveness application (SBA Form 3508S), as of May 17, 2021 (see fig. 7).⁶⁵ In contrast, about 4 percent of businesses had used the most complex form (SBA Form 3508). This is consistent with the fact that most loan forgiveness applications received by SBA were for smaller loans (which can use the simpler form).

⁶⁵On October 8, 2020, exercising their authority under the CARES Act to grant de minimis exemptions for certain PPP forgiveness requirements, SBA and Treasury posted an interim final rule that simplified the forgiveness and loan review processes for most PPP loans of \$50,000 or less. In conjunction with the rule, SBA released a new form (SBA Form 3508S) that requires fewer calculations and less documentation for eligible borrowers. SBA had previously released two other loan forgiveness applications—a long form (SBA Form 3508) and an abbreviated form (SBA Form 3508EZ). The 3508S is shorter than the 3508EZ. The form the borrower may use depends on factors such as the amount borrowed and whether the business reduced the number of employees or their salaries. The Consolidated Appropriations Act, 2021, mandated a simplified forgiveness application for loans of \$150,000 or less. In January 2021, SBA modified the SBA Form 3508S to allow borrowers to use the form for loans of \$150,000 or less and to remove the requirement to provide supporting documentation, per the act's changes.

Figure 7: PPP Loan Forgiveness Decisions Submitted to SBA by Form Used and Forgiveness Amount, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Data table for Figure 7: PPP Loan Forgiveness Decisions Submitted to SBA by Form Used and Forgiveness Amount, as of May 17, 2021

	Form 3508EZ	Form 3508S	Form 3508
Not forgiven	40.829 (30%)	76.909 (56%)	19.02 (14%)
<= \$50,000	282,688 (13%)	1,825,145 (86%)	15,950 (0.75%)

	Form 3508EZ	Form 3508S	Form 3508
>\$50,000 and <= \$150,000	291,749 (44%)	342,509 (51%)	33,663 (5%)
>\$150,000 and <= \$500,000	234,711 (82%)	0 (0%)	51,147 (18%)
>\$500,000 and <= \$1,000,000	50,282 (74%)	0 (0%)	17,916 (26%)
>\$1,000,000 and <=\$2,000,000	21,124 (67%)	0 (0%)	10,516 (33)
>\$2,000,000	482 (58%)	0 (0%)	356 (42%)
All	921,865 (28%)	2,244,563 (68%)	148,577 (4%)

All Loans

- Form 3508 = 4%
- Form 3508S = 68%
- Form 3508EZ = 28%

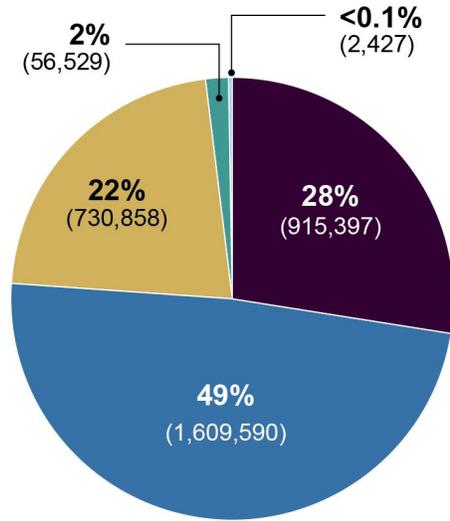
Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Note: We limited our analysis to lender decisions on Round 1 PPP loans for which SBA had made a determination.

The business types that received the most PPP loans had also submitted the most loan forgiveness applications, as of May 17, 2021. The largest percentage of forgiveness applications on which lenders had made decisions were from corporations (30 percent), limited liability corporations (29 percent), and sole proprietorships (15 percent). However, less than two-thirds of borrowers in each of these business types had applied for loan forgiveness. In contrast, about 75 percent of nonprofit borrowers had applied for loan forgiveness.

Further, the largest percentage of forgiveness applications received came from businesses with the smallest number of employees. Our analysis found that, as of May 17, 2021, about 77 percent of the forgiveness applications on which lenders had made decisions came from businesses with 10 or fewer employees (see fig. 8). In contrast, about 2 percent of loan forgiveness applications came from businesses with more than 100 employees.

Figure 8: PPP Loan Forgiveness Decisions Submitted to SBA, by Number of Employees, as of May 17, 2021



Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Data table for Figure 8: PPP Loan Forgiveness Decisions Submitted to SBA, by Number of Employees, as of May 17, 2021

Number of Employees	Number of loan forgiveness decisions
1	915,397
2-10	1,609,590
11-100	730,858
101-500	56,529
>500	2,427

Source: GAO analysis of Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness data. | GAO-21-577

Notes: We limited our analysis to lender decisions on Round 1 PPP loans for which SBA had made a determination. This figure excludes 204 loans with missing or incomplete information. Percentages may not add to 100 due to rounding.

Survey Shows Lenders Cited Challenges with the Loan Forgiveness Process

Our survey of PPP lenders, which closed in mid-April 2021, identified several challenges they had experienced during the loan forgiveness process, such as changing rules and guidance and higher than expected demands on their resources. Lenders also cited borrowers' lack of understanding of the process and borrowers submitting incomplete applications.

Decentralized and changing rules and guidance. The majority of lenders we surveyed found SBA's guidance on the loan forgiveness process to be helpful; however, lenders cited changes to rules and guidance and the lack of a central guidance document as challenges.⁶⁶ We estimate that 58 percent of lenders found the information SBA provided about the loan forgiveness process to be very or moderately helpful.⁶⁷ In response to an open-ended question, some lenders stated that the loan forgiveness platform was self-explanatory and easy to follow, and they received information in a timelier manner than during the loan application phase.

However, we estimate that 69 percent of lenders found changes in SBA's program rules and guidance on the loan forgiveness process (e.g., interim final rules, FAQs) to be very or moderately challenging during that process.⁶⁸ In addition, we estimate that 58 percent of lenders found the lack of a central SBA document containing program rules and guidance to

⁶⁶In July 2021, we reported that as of May 2021, SBA had not prominently and strategically placed information on its website about the tax implications of its PPP forgiveness application. This information, particularly for borrowers who do not work with tax professionals, could help borrowers make decisions that would allow them to maximize the Employee Retention Credit. The Employee Retention Credit is a refundable 50 percent tax credit of up to \$10,000 in wages paid by an eligible employer whose business has been financially affected by COVID-19. As a result of our work, SBA worked with Treasury and posted Internal Revenue Service guidance on SBA's loan forgiveness webpage on the tax implications of payroll cost allocations to PPP loan forgiveness applicants. [GAO-21-551](#).

⁶⁷The 95 percent confidence interval for this estimate is (55, 62). Survey respondents were asked to rate the helpfulness of guidance using the following scale: very helpful, moderately helpful, somewhat helpful, not helpful, and do not know.

⁶⁸The 95 percent confidence interval for this estimate is (65, 72).

be very or moderately challenging during the loan forgiveness process.⁶⁹ For example, lenders and borrowers often could not readily determine where to find the information they needed and had to search through multiple documents to obtain answers to questions. SBA partially addressed this problem through its February 2021 interim final rule, which consolidated prior rules on the loan forgiveness process.⁷⁰

Resources needed for the process were greater than expected.

Some lenders who responded to our survey indicated that they needed more resources than they expected to make loan forgiveness decisions. We estimate that 38 percent of lenders found the actual level of resources required for making loan forgiveness decisions was higher or much higher than expected.⁷¹ Our lender survey showed that it most commonly took survey respondents between 1 and 3 staff hours to review a borrower's loan forgiveness application and related documentation for SBA Forms 3508 and 3508EZ.⁷²

In response to an open-ended question on our survey, lenders cited several reasons for needing additional resources, such as to address documentation requirements, process forgiveness applications under changing and unclear guidance on loan forgiveness, and work with borrowers to complete the forgiveness applications. For example, one lender said they believed loans pulled for review by SBA are held to a higher documentation standard than was required at application. Another lender stated it took much longer than expected to process forgiveness applications as the rules continued to change. A third lender said the lack of a centralized source of accurate information and the constantly

⁶⁹The 95 percent confidence interval for this estimate is (55, 62).

⁷⁰Business Loan Program Temporary Changes; Paycheck Protection Program—Loan Forgiveness Requirements and Loan Review Procedures as Amended by Economic Aid Act, 86 Fed. Reg. 8283 (Feb. 5, 2021).

⁷¹The 95 percent confidence interval for this estimate is (34, 41). Survey respondents were asked to rate the actual level of resources required using the following scale: much higher than expected, higher than expected, as expected, lower than expected, much lower than expected, and do not know.

⁷²Forty-two percent of survey respondents (lenders) indicated it took 1–3 staff hours to review Form 3508 (the most extensive form) and 45 percent responded that it took them 1–3 staff hours to review Form 3508EZ. The 95 percent confidence interval for these estimates are (38, 45) for Form 3508 and (41, 48) for Form 3508EZ. In contrast, 63 percent of lenders reported they spent less than 1 hour reviewing applications submitted using Form 3508S (the simplest form) and related documentation. The 95 percent confidence interval for this estimate is (60, 66).

changing rules and guidance increased draws on its resources. A fourth lender noted that lenders' responsibilities continually intensified throughout the PPP process.

Borrowers' lack of understanding of loan forgiveness process. We estimate that 61 percent of lenders found borrowers' lack of understanding of the loan forgiveness process either very or moderately challenging.⁷³ Similarly, we estimate 43 percent of lenders found that incorrect calculations submitted by borrowers, such as inclusion of ineligible expenses, were either very or moderately challenging.⁷⁴

In response to an open-ended question on our survey, one lender stated that the forms were far too detailed and confusing for borrowers, often forcing them to incur accounting expenses to complete them. Some of the confusion may have been caused by the various rules and guidance SBA issued. For example, one respondent stated that while the forgiveness FAQs and interim final rules were timelier than the initial PPP application information, SBA kept changing the loan forgiveness information and applications. According to the respondent, these changes made it complicated to coach clients on the information needed to verify information such as the number of employees.

Borrowers providing incomplete forgiveness application forms and insufficient documentation. An estimated 51 percent of lenders stated that receiving incomplete forgiveness applications was very or moderately challenging.⁷⁵ Similarly, we estimate that 56 percent of lenders found that insufficient documentation from borrowers was very or moderately challenging during the loan forgiveness process.⁷⁶

SBA Has Not Developed a Guarantee Purchase Process for PPP Loans

As of early July 2021, SBA had not issued guidance on how lenders can ask SBA to honor its guarantee by purchasing the loan if the borrower's business ceases operations or the borrower defaults. While SBA has a

⁷³The 95 percent confidence interval for this estimate is (58, 65).

⁷⁴The 95 percent confidence interval for this estimate is (40, 46).

⁷⁵The 95 percent confidence interval for this estimate is (47, 54).

⁷⁶The 95 percent confidence interval for this estimate is (53, 60).

process for these types of issues for its 7(a) program, representatives of three lender associations told us PPP needs more targeted guidance, as it is a fundamentally different program.

Currently, SBA does not allow lenders to ask SBA to honor its guarantee for PPP loans until a borrower defaults on a payment on the loan. This applies even in cases in which a lender has evidence that a borrower has filed for bankruptcy or no longer exists and is unlikely to request forgiveness before the end of the borrower's 10-month deferral period for the loan.⁷⁷

According to SBA guidance, PPP lenders must continue servicing loans for which a loan forgiveness application has not been filed and, for loans that are not fully forgiven, until the borrower repays the outstanding portion of the loan.⁷⁸ Because borrowers who do not receive full loan forgiveness may keep their PPP loan for the full loan term (up to 5 years), at a 1 percent interest rate, ongoing loan servicing for PPP loans may be costly to lenders. Representatives from two lender associations we interviewed expressed concern this will force lenders to hold some loans made to businesses no longer in operation until October 2021 or later.⁷⁹

OMB Circular A-129 states that agencies shall ensure that statutory and regulatory requirements set forth in applicable standards and regulations are incorporated into agency regulations, policies, and procedure for credit programs and debt collection activities. However, SBA has not yet developed a process for lenders to claim the PPP guarantee. According to SBA officials, in early May 2021, SBA had drafted a notice outlining the

⁷⁷The Opportunity Insights Economic Tracker estimated that, as of June 2, 2021, the number of small businesses open in the U.S. had decreased by 38.9 percent compared to January 2020. This site updates data initially reported in a November 2020 study. See Raj Chetty et al., *The Economic Impacts of COVID-19: Evidence from a New Public Database Built Using Private Sector Data* (November 2020). The Paycheck Protection Flexibility Act of 2020 extended the deferral period for loan payments on the principal, interest, and fees on PPP loans to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) 10 months after the end of the borrower's covered period if the borrower does not apply for loan forgiveness. Pub. L. No. 116-142, § 3, 134 Stat. 641, 642-43.

⁷⁸PPP loans may be for 2 or 5 years, depending in part, on when they were made.

⁷⁹Although lenders can sell their PPP loans on the secondary market, representatives of two lender associations with whom we spoke said such opportunities are limited because investors are not interested in purchasing loans at a 1 percent interest rate. SBA guidance states that the purchasing lender obtains all servicing rights and will be responsible for servicing actions and forgiveness and be the party eligible for the guaranteed purchase of a PPP loan.

PPP guarantee purchase process, but the notice had not been reviewed and finalized. The officials noted that PPP loans are significantly different than loans made under the regular 7(a) program and therefore needed a separate set of procedures. The officials were uncertain when the procedures would be finalized and issued but said that doing so was a management priority.

Consequently, until SBA finalizes the guarantee purchase process, lender capital will remain tied up until the guarantee is paid as those borrowers who have gone bankrupt or out of business will be unlikely to repay the loans. Because PPP lenders will have less available capital, they will be less likely to make non-PPP loans to small businesses. In addition, the ongoing servicing costs may exceed the fees lenders receive through the program.

SBA Does Not Allow Advance Purchase of PPP Loans

As of July 2021, SBA had not implemented the CARES Act provision requiring advance purchase of PPP loans, although shortly after the program started the agency indicated it would do so. The CARES Act requires SBA to make an advance purchase for the expected forgiveness amount of a PPP loan within 15 days of receiving a report on the expected forgiveness amount from a lender, and outlines a process for lenders to initiate the advance purchase.⁸⁰ The CARES Act also states that SBA shall purchase the expected forgiveness amount as if the amount were the principal amount of a loan guaranteed under its 7(a) program. The act first requires the PPP lender to submit a report to SBA with the expected forgiveness amount up to 100 percent of the principal amount for a covered loan, or pool of loans, and SBA is to provide an advance purchase of those loans.⁸¹

⁸⁰Pub. L. No. 116-136, § 1106(c)(4), 134 Stat. 281, 298 (2020) (codified at 15 U.S.C. § 636m(c)(4)). The CARES Act defines "expected forgiveness amount" as the amount of principal that a lender reasonably expects a borrower to expend during the covered period on the sum of any payroll costs, covered mortgage interest, covered rent, and covered utility payments. Pub. L. No. 116-136, § 1106(a)(7), 134 Stat. 281, 297-298 (2020) (codified as amended at 15 U.S.C. § 636m(a)(11)). This definition was later expanded to also include covered operations expenditures, property damage costs, supplier costs, and worker protection expenditures.

⁸¹The CARES Act specifies that, at the discretion of the SBA Administrator, third-party participants in the secondary market may also report expected forgiveness amounts to SBA.

SBA took initial steps to implement this provision in the first PPP interim final rule published in April 2020. In the rule, SBA stated that a lender may request that SBA purchase an expected forgiveness amount at the end of week 7 of the loan's covered period.⁸² The first interim final rule specified that the lender submit a report requesting advance purchase with the expected forgiveness amount to SBA, along with required forms and supporting documentation.⁸³ In an interim final rule on loan review procedures released in May 2020, SBA stated it would issue additional procedures for advance purchase of PPP loans.⁸⁴ Although SBA issued several additional interim final rules in 2020, it did not provide additional guidance related to advance purchases. On January 14, 2021, SBA published a new interim final rule that modified the initial PPP interim final rule and included a footnote stating that advance purchases are not available under PPP.⁸⁵

According to SBA officials, as of July 2021, SBA did not plan to implement this provision. They stated that SBA and Treasury officials decided in 2020 not to implement the provision because they believed that the Board of Governors of the Federal Reserve System's (Federal Reserve) PPP Liquidity Facility was a better vehicle to provide lender

⁸²The interim final rule states that at the time the SBA Administrator, in consultation with the Secretary of the Treasury, determined that 7 weeks was the minimum period of time necessary for a lender to reasonably determine the expected forgiveness amount for a PPP loan or pool of PPP loans because PPP was a new program and of the likelihood that many borrowers would be new clients of the lender. Business Loan Program Temporary Changes; Paycheck Protection Program, 85 Fed. Reg. 20,811, 20,816 (Apr. 15, 2020). Under the CARES Act, the "covered period" during which borrowers can spend forgivable expenses was originally specified as the 8-week period beginning on the date of the origination of the loan. As amended by subsequent legislation, the covered period for loan forgiveness means the period beginning on the date the loan is originated and ending on a date of the borrower's choosing between 8 and 24 weeks after the loan's origination.

⁸³The first interim final rule also required lenders to include a detailed narrative explaining the assumptions used in determining the expected forgiveness amount and the basis for those assumptions, along with possible alternative assumptions considered and any additional information SBA might require to determine whether the amount is reasonable.

⁸⁴Business Loan Program Temporary Changes; Paycheck Protection Program—SBA Loan Review Procedures and Related Borrower and Lender Responsibilities, 85 Fed. Reg. 33,010, 33,013 (June 1, 2020).

⁸⁵Business Loan Program Temporary Changes; Paycheck Protection Program as Amended by Economic Aid Act, 86 Fed. Reg. 3692, 3708, n. 101 (Jan. 14, 2021).

liquidity.⁸⁶ Further, SBA officials stated the program is now over 1 year old and questioned whether a rule implementing the provision was still necessary. However, SBA has not requested that Congress repeal the advance purchase requirement. Without a change in law, SBA has not fully implemented all CARES Act requirements for PPP. Failing to implement this requirement may undermine the intent of this CARES Act provision.

SBA Implemented a Loan Review Process but Has Not Documented Certain Review Steps or Developed a Process to Improve Communication with Lenders

SBA and its contractor began conducting loan eligibility and loan forgiveness reviews for Round 1 applications in August 2020. SBA requires that issues identified during the reviews be resolved before a borrower receives a second PPP loan or SBA remits loan forgiveness funds to the lender.

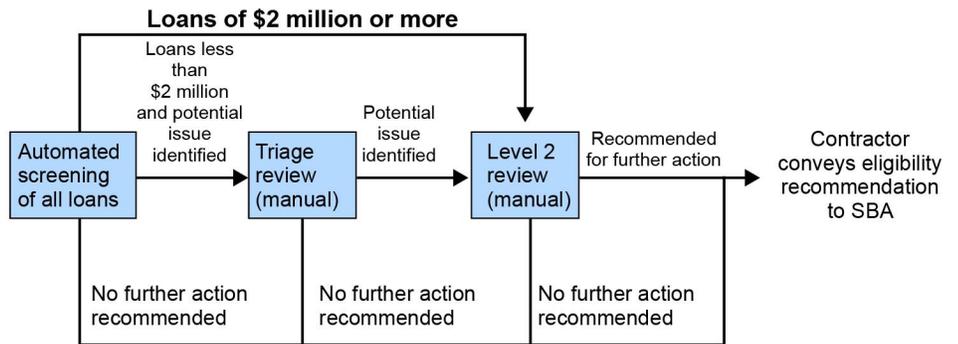
SBA Contractor Performs Multiple Initial Loan Reviews

An SBA contractor (loan review contractor) conducts automated and manual loan reviews to test for compliance with program requirements and evaluate the accuracy of PPP borrowers' self-certifications (see fig. 9). The contractor's loan review process consists of up to three consecutive steps: automated screening, triage reviews, and level 2 reviews. At the end of each step, the loan review contractor recommends no further action—if no potential issues are identified—or moves the loan to the next level of review. Before loan decisions are referred to SBA, a supervisor reviews analysts' decisions for each loan for quality assurance purposes. In addition to loan-level reviews, the loan review contractor conducts expedited reviews to more efficiently close loans flagged during

⁸⁶The PPP Liquidity Facility was launched on April 16, 2020, and allowed Federal Reserve Banks to lend to institutions eligible to originate PPP loans and take the PPP loans as collateral. The facilities are authorized under section 13(3) of the Federal Reserve Act and approved by the Secretary of the Treasury. According to Federal Reserve reporting, as of April 30, 2021, the total outstanding amount of advances under the facility was \$73.9 billion.

automated screening and conducts aggregate reviews across all loans to identify potential fraud schemes.

Figure 9: Contractor Loan Eligibility Review Process for the Paycheck Protection Program



Source: GAO analysis of Small Business Administration (SBA) documents. | GAO-21-577

Text of Figure 9: Contractor Loan Eligibility Review Process for the Paycheck Protection Program

- 1) Automated screening of all loans
 - a) Loans of \$2 million or more
 - i) Level 2 review (manual)
 - ii) Loans recommended for further action
 - iii) Contractor conveys eligibility recommendation to SBA
 - b) Loans of less than \$2 million and potential issue identified
 - i) Triage review (manual)
 - ii) potential issue identified
 - iii) Loans recommended for further action
 - iv) Contractor conveys eligibility recommendation to SBA

Source: GAO analysis of SBA documents. | GAO-21-577

Automated screening. The loan review contractor first screens all PPP loans using an automated rules-based tool. The tool compares PPP loan

data against publicly available information and applies eligibility and fraud detection rules to identify anomalies or attributes that may indicate noncompliance with eligibility requirements, fraud, or abuse. For example, the tool flags loans made to a borrower in active bankruptcy or one who used the tax identification number of a deceased person.

The loan review contractor conducted automated screenings for the approximately 5.1 million Round 1 PPP loans in August and early September 2020. Of those loans, about 2 million received at least one alert through automated screening and were flagged for additional review. According to SBA officials, the automated screening rules are intentionally broad to capture potentially noncompliant loans, because limited controls were in place during loan approval. Additionally, SBA flagged approximately 280,000 loans for manual review based on general referrals, fraud tips, media reports, whistleblower reports, and information received from the SBA OIG and DOJ. As of April 21, 2021, the loan review contractor had escalated approximately 2.3 million loans for manual review.

Triage reviews. The first step in the manual review process is a triage review, which is intended to identify loans of less than \$2 million that can be easily resolved by determining that an automated screening alert was invalid, according to loan review contractor officials.⁸⁷ In a triage review, an analyst conducts an internet search and matches public data records to information in the borrower's application. Triage reviews focus on the resolution of common data issues such as data entry errors, partial data entry, or issues arising from borrowers with common names.

As of May 17, 2021, the loan review contractor had conducted triage reviews for 42,205 loans, according to SBA. Of those, 33,664 were referred to SBA for no further action and 11,541 were escalated for level 2 reviews. About 26,000 loans were pending triage review.

Level 2 reviews. The loan review contractor conducts a level 2 review of all loans that were escalated from the triage review and all loans of \$2 million or greater to determine borrower eligibility and the presence of fraud or abuse. Level 2 analysts study alerts triggered during automated screening, triage review analysis, and loan application and forgiveness information submitted by the borrower. These analysts conduct open

⁸⁷The loan review contractor conducts a level 2 review of all loans of \$2 million or greater. Therefore, none of these loans receive a triage review.

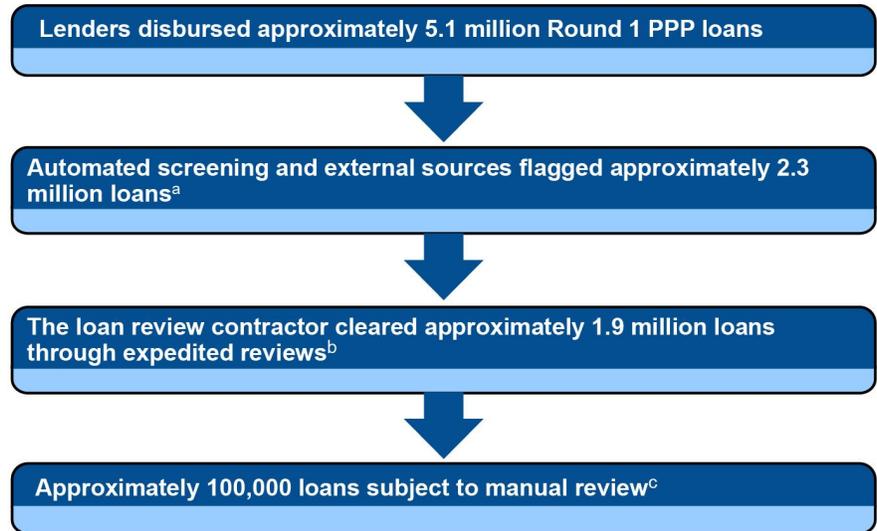
source research to verify the existence and good standing of the business and conduct a risk indicator analysis, which compares alerts from the automated review to targeted in-depth research, to corroborate or resolve the alert. Level 2 analysts also may request more documentation from a borrower if they cannot determine eligibility based on loan application documentation or forgiveness submissions.

As of May 17, 2021, the loan review contractor had completed 11,541 level 2 reviews. Of those, the loan review contractor referred 10,325 loans to SBA for no further action and referred 1,216 to SBA for further action. About 35,000 loans were pending level 2 review.

Quality assurance process. The loan review contractor implemented a quality assurance process for its loan reviews. Before loans are referred to SBA (for further action or no further action), a supervisor reviews the decisions made by the triage analyst and level 2 analyst for each loan to determine whether the analysts followed established procedures and whether the supervisor agrees with the analysts' decisions. Additionally, a quality assurance team reviews and provides feedback on the automated screening, triage review, and level 2 review processes on an ongoing basis.

Expedited reviews. After conducting about 21,000 manual reviews, the loan review contractor implemented two processes—data analytics and machine learning—that helped clear 1.9 million of the 2.3 million flagged loans that posed minimal risk of noncompliance with eligibility requirements, fraud, or abuse (see fig. 10). First, the loan review contractor used data analytics to help clear three batches of loans. The contractor proposed clearing (that is, referred to SBA for no further action) approximately 855,000 loans using data analytics to identify groups of loans with similar characteristics that received alerts that the loan review contractor considered lower risk. For example, a loan might receive an alert because the borrower did not have an online presence, such as a website. However, a lack of online presence is common for very small businesses. Therefore, the loan review contractor proposed clearing small businesses of a certain size that received an alert only for this reason. For loans of \$150,000 or less, the loan review contractor proposed clearing another 945,000 loans using criteria such as loans having five or fewer alerts or not having mismatched or unverified information. The contractor also proposed clearing 4,250 loans of \$2 million or more based on data analytics.

Figure 10: Results of SBA’s Expedited Review Process for the Paycheck Protection Program, as of April 2021



Source: GAO analysis of Small Business Administration (SBA) documents. | GAO-21-577

Text of Figure 10: Results of SBA’s Expedited Review Process for the Paycheck Protection Program, as of April 2021

- Lenders disbursed approximately 5.1 million round 1 PPP loans
- Automated screening and external sources flagged approximately 2.3 million loans /a/
- The loan review contractor cleared approximately 1.9 million loans through expedited reviews /b/
- Approximately 100,000 loans subject to manual review /c/

Source: GAO analysis of SBA documents. | GAO-21-577

^aThe contractor’s automated screening process flagged approximately 1.9 million loans, and SBA flagged an additional approximately 280,000 loans based on general referrals, fraud tips, media reports, or whistleblower reports.

^bBased on data analytics, the contractor helped clear approximately 855,000 loans with low risk flags, approximately 945,000 loans of \$150,000 or less, and approximately 4,250 loans of \$2 million or more. Through machine learning, the contractor helped clear an additional approximately 92,000 loans.

^cThe loan review contractor starts manual reviews with a triage review of loans less than \$2 million. After the triage review, loans are either referred to SBA for no further action or escalated to level 2 review. The loan review contractor conducts level 2 reviews of loans escalated from triage review and all loans of \$2 million or more. After the level 2 review, loans are referred to SBA either for no further action or for further action.

Second, the loan review contractor used machine learning to clear batches of loans flagged during automated screening. In this process, the

loan review contractor used historical data from completed manual reviews to teach a computer model to categorize new data and identify loans that are likely to receive a recommendation of no further action. Through this machine learning process, the loan review contractor referred approximately 92,000 loans to SBA for no further action without conducting a manual review.

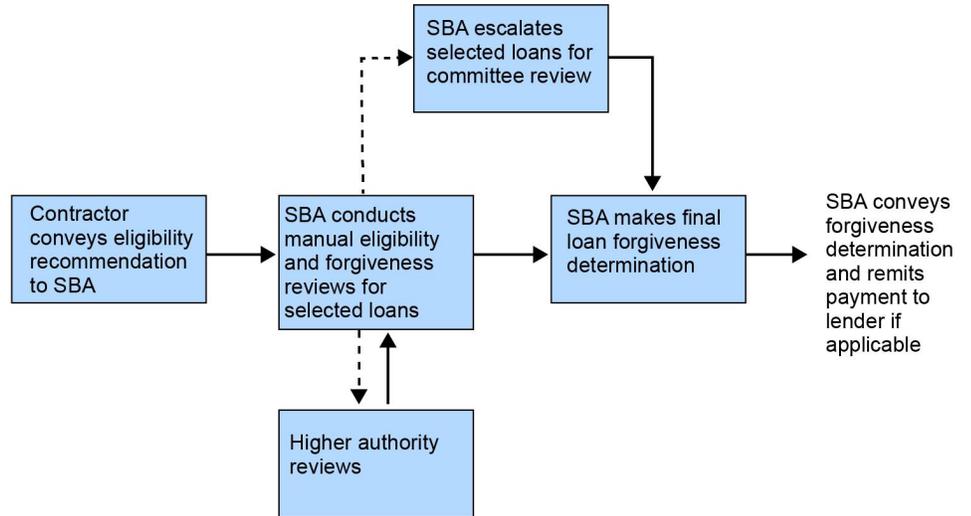
Aggregate review. The loan review contractor also plans to analyze all loans in the aggregate to identify and analyze relationships across loans, borrowers, and lenders, seeking to identify potentially suspicious relationships and activities. The loan review contractor stated this aggregate review is intended to uncover organized, systemic fraud and large fraud schemes. For example, the aggregate review could identify commonalities among borrowers, such as multiple borrowers with the same phone number or address. If the loan review contractor uncovers potential fraud schemes, it plans to notify SBA. According to SBA officials, SBA would then notify the SBA OIG for further investigation.

Loan review contractor officials said they began conducting aggregated reviews in March 2021, after they had conducted a critical mass of automated and manual loan reviews, which formed the basis of their aggregate review approach. The loan review contractor plans to use trends identified through the aggregate review to create and further refine rules for future automated screening and manual reviews.

SBA Has Not Yet Completed Procedures for Some Reviews of Borrower Eligibility and Loan Forgiveness Decisions

As of July 2021, SBA had not yet finalized procedures for elevated reviews of some borrower eligibility and loan forgiveness decisions (see fig. 11). After the loan review contractor submits its proposed loan eligibility decisions, SBA conducts manual reviews of certain loans to determine borrower eligibility and loan forgiveness entitlement and amount. If, according to SBA officials, SBA determines during the loan forgiveness review that the borrower is ineligible for a PPP loan or ineligible for the loan amount or the loan forgiveness amount claimed by the borrower, SBA staff may escalate loans for a higher authority review. When SBA makes a final loan forgiveness determination, it notifies the lender of the determination. If SBA determines the borrower is entitled to loan forgiveness, in whole or in part, SBA remits the appropriate loan forgiveness amount to the lender.

Figure 11: SBA Loan Eligibility and Forgiveness Review Process for the Paycheck Protection Program



Legend

- > Progression to next step in process
- - - -> Progression to optional step in process

Source: GAO analysis of Small Business Administration (SBA) documents. | GAO-21-577

Text of Figure 11: SBA Loan Eligibility and Forgiveness Review Process for the Paycheck Protection Program

- 1) Contractor conveys eligibility recommendation to SBA
- 2) SBA conducts manual eligibility and forgiveness reviews for selected loans
 - a) optional – SBA escalates selected loans for committed review
 - b) optional – higher authority reviews which then go back to SBA
- 3) SBA makes final loan forgiveness determination
- 4) SBA conveys forgiveness determination and remits payment to lender if applicable

Source: GAO analysis of SBA documents. | GAO-21-577

Loan eligibility reviews. SBA conducts manual reviews for fraud, abuse, or noncompliance with eligibility requirements for

- all loans of \$2 million or greater,
- all loans of less than \$2 million for which the loan review contractor recommended further action, and
- a sample of loans of less than \$2 million for which the loan review contractor recommended no further action.

During a loan eligibility review, an SBA analyst reviews the report submitted by the loan review contractor, if applicable, and borrower documentation. If the review indicates potential noncompliance with eligibility requirements, the analyst can escalate the loan to a higher authority review. After SBA determines a borrower's loan eligibility, it may notify the lender of its loan eligibility determination or may continue with a forgiveness review if a forgiveness decision has been submitted by the lender. If a lender has not yet submitted a forgiveness decision, SBA will notify the lender of its loan eligibility determination.

Loan forgiveness reviews. SBA reviews the loan forgiveness applications for

- all loans of \$2 million or greater;
- a sample of loans below \$2 million;
- at SBA's discretion, loans below \$2 million for which the loan review contractor recommended further action; and
- at SBA's discretion, loans below \$2 million for which the lender submitted a decision to SBA denying forgiveness for the full loan amount.⁸⁸

During loan forgiveness reviews, an analyst reviews loan forgiveness applications to confirm borrower eligibility; confirm the borrower correctly calculated the loan amount, forgiveness amount, and covered period; review eligible expenditures; and confirm the borrower submitted the correct loan forgiveness form. If employment and payroll information is not fully supported by borrower-submitted documentation, SBA can request additional documentation through the lender. However, if borrower-submitted documentation remains insufficient, the analyst can recommend denial and escalate the loan to a higher authority review.

⁸⁸A PPP borrower can appeal SBA's final loan review decision within 30 days of receiving notification of the decision. SBA posted an interim final rule governing appeals of its PPP loan review decisions in August 2020. Appeals of Loan Review Decisions Under the Paycheck Protection Program, 85 Fed. Reg. 52,883 (Aug. 27, 2020).

Committee reviews. Loans where the borrower was determined to be ineligible to participate in PPP may be referred to a committee of senior managers in SBA's Office of Capital Access to make a final decision. In some cases, the Associate Administrator for the Office of Capital Access may make the final loan review decision. As of May 6, 2021, no loans had been referred to this committee. SBA officials said they were revising a document that establishes the criteria for escalating loans to the committee.

As of July 2021, SBA had not documented its policies or procedures for conducting higher authority reviews or committee reviews, aside from documents that establish the criteria for escalating loans to the committee. SBA officials stated that they had not yet documented these policies or procedures because they were still finalizing the process for these reviews. They did not provide time frames for finalizing the process or completing the policies and procedures. According to federal internal control standards, management should implement control activities through policies. Management is to document in policies the control responsibilities of the organization, including through day-to-day procedures, timing of control execution, and follow-up actions to be taken.⁸⁹

Until SBA finalizes and documents policies and procedures for conducting senior-level reviews, there could be increased risk of SBA making inconsistent or incorrect determinations in reviewing borrower eligibility and loan forgiveness applications, including potentially denying forgiveness to eligible borrowers.

Quality control reviews. As a quality assurance measure, SBA hired a different contractor (quality control contractor) to conduct quality control reviews of 6,500 loans. The quality control contractor is to independently review whether the loan review process was executed as designed and whether the evidence in the loan review file sufficiently supported SBA's loan review decision.

According to the contractor, the quality control reviews focus on areas such as borrower eligibility, loan size, the loan review contractor's referral of loans to SBA, and the loan forgiveness rules. SBA officials said that, as of May 14, 2021, the quality control contractor had reviewed five loans, two of which had findings indicating that the analyst had not correctly

⁸⁹[GAO-14-704G](#).

conducted the reviews. In one case, the contractor found that a loan application document was not included in the loan file. In the second case, the contractor found the analyst determined that while the borrower may have been eligible for an exemption that would have prevented its loan forgiveness amount from being reduced, there was not any evidence that the borrower actually selected that exemption.⁹⁰ According to SBA, loans with identified issues are returned to SBA for additional review.

SBA's Review Process Is Generally Consistent with Federal Guidance, but SBA's Responses to Lender Inquiries Are Not Timely

SBA's processes for PPP loan reviews are generally consistent with applicable standards for federal credit programs found in OMB Circular A-129 (see table 3), based on our review of PPP rules and guidance and internal SBA policies and procedures.⁹¹ Specifically, SBA's processes were consistent to the extent practicable with selected OMB standards for applicant screening and for loan documentation standards. SBA's processes were partially consistent with OMB standards for managing lenders and servicers and for credit program management. See appendix IV for more details on our analysis.

Table 3: GAO Assessment of SBA Processes Compared against Circular A-129 Standards

OMB Circular A-129 Standard	GAO Assessment
Applicant screening	Consistent
Loan documentation	Consistent

⁹⁰A safe harbor allows borrowers to be exempted from any loan forgiveness reduction based on a reduction in the number of full-time equivalents. The exemption allows borrowers to indicate that they were unable to operate between February 15, 2020, and the end of the covered period at the same level of business activity as before February 15, 2020, due to compliance with requirements established or guidance issued between March 1, 2020, and December 31, 2020 (or, with respect to a PPP loan made on or after December 27, 2020, between March 1, 2020, and the last day of the covered period with respect to such loan), by the Secretary of Health and Human Services, the Director of the Centers for Disease Control and Prevention, or the Occupational Safety and Health Administration related to the maintenance of standards for sanitation, social distancing, or any other worker or customer safety requirement related to COVID-19.

⁹¹OMB Circular No. A-129. Specifically, we assessed whether SBA's processes were consistent with those selected OMB standards we determined to be applicable to PPP. See app. I for more information on our methodology.

OMB Circular A-129 Standard	GAO Assessment
Managing lenders and servicers	Partially consistent
Credit program management	Partially consistent

Legend:

- Consistent to the extent practicable
- ◐ Partially consistent

Source: GAO analysis of Office of Management and Budget (OMB) and Small Business Administration (SBA) documents. | GAO-21-577

Consistency with Standards for Applicant Screening

We determined that SBA’s processes for PPP were consistent to the extent practicable with the applicable OMB standards for applicant screening. PPP loan applications include a section for borrowers to certify that the information provided is accurate, to certify that neither the applicant nor any owner of the applicant is delinquent on certain federal debt, and to enter the applicant’s taxpayer identification number.

Under Circular A-129, federal credit granting agencies and private lenders in guaranteed loan programs must determine whether applicants comply with statutory, regulatory, and administrative eligibility requirements for loan assistance. Standards applicable to PPP include borrowers certifying the accuracy of information provided on loan applications, lenders determining if a borrower is delinquent on any federal debt, and agencies obtaining the taxpayer identification number of borrowers to confirm their identity.⁹²

Consistency with Standards for Loan Documentation

We determined that SBA’s processes were consistent to the extent practicable with the applicable OMB standards for loan origination files under PPP. Borrowers submitted loan applications to lenders and subsequent loan contracts were created for borrowers approved for a PPP loan. Additionally, borrowers provided supporting documentation to address their need for the PPP loan, which lenders then used to make a “good-faith review” of borrowers’ need for the loan and justified loan

⁹²Other standards described under the applicant screening section of Circular A-129 are not applicable to PPP, such as agency and lender attestation of borrower creditworthiness.

value.⁹³ All supporting documentation is retained in the lender's file. Under the program's first interim final rule, lenders were not required to conduct a credit check before approving a PPP loan.⁹⁴

Under Circular A-129, loan origination files should contain loan applications, loan contracts, and other documents necessary to conform to private-sector standards. Additionally, the CARES Act requires documentation from eligible self-employed individuals, independent contractors, and sole proprietorships to establish applicant eligibility, as determined by SBA and the Secretary of the Treasury. Circular A-129 states that accurate and complete documentation is critical to providing proper servicing of the debt, pursuing collection of delinquent debt, and in the case of guaranteed loans, processing claim payments.

Partial Consistency with Standards for Managing Lenders and Servicers

We determined SBA's processes were partially consistent with selected OMB standards for managing lenders and servicers under PPP. Consistent with Circular A-129, SBA has published PPP lender and servicer eligibility criteria in the *Federal Register*, and SBA's lender application forms include program rules and require certifications from lenders that they will abide by them.⁹⁵ Although SBA plans to conduct reviews of PPP lenders, SBA was in the process of developing its lender oversight plans as of July 2021.

⁹³As set forth in the CARES Act, borrowers have to certify in good faith that (1) current economic uncertainty made the loan request necessary to support the applicant's ongoing operations and (2) funds would be used to retain workers and maintain payroll or make payments for other covered expenses. To streamline the process, SBA required minimal loan underwriting from lenders—such as confirming receipt of borrower certifications and supporting payroll documentation.

⁹⁴The first interim final rule required lenders to (1) confirm receipt of borrower certifications contained in the PPP application form issued by SBA, (2) confirm receipt of information demonstrating that a borrower had employees for whom the borrower paid salaries and payroll taxes on or around February 15, 2020, (3) confirm the dollar amount of average monthly payroll costs for the preceding calendar year by reviewing the payroll documentation submitted with the borrower's application, and (4) follow applicable BSA requirements. 85 Fed. Reg. 20,811, 80,815 (Apr. 15, 2020).

⁹⁵Circular A-129 states that federal credit-granting agencies shall establish and publish in the *Federal Register* specific eligibility criteria for lender or servicer participation in federal credit programs. It states that agencies should enter into written agreements with lenders that include participation requirements and performance standards.

Under Circular A-129, agencies should review and document a lender's eligibility for continued participation at least every 2 years, and conduct on-site reviews that are prioritized based on lender performance and exposure. Agencies should establish specific procedures to take appropriate action when compliance or eligibility standards are not met.

SBA's loan review and loan forgiveness review procedures include some steps to identify lenders potentially noncompliant with program rules. As of July 2021, SBA was developing aspects of its lender oversight plans, including plans for monitoring the health of lender portfolios and prioritizing reviews of lenders based on risk.

- SBA began an aggregate review process to identify trends within and across lenders in March 2021. According to SBA documentation, implementation could not begin until March because a critical mass of loan forgiveness applications had to be submitted before beginning screening. As of May 2021, this process was ongoing.
- SBA also plans to monitor lenders' servicing of PPP loans with residual balances (post-forgiveness portfolio) through its Office of Credit Risk Management, which oversees lender compliance for other loan programs such as regular 7(a). As of July 2021, the office was testing the metrics it planned to use to measure lender risk and target lender oversight to lenders determined to be higher risk. SBA officials said they may continue to refine the metrics over the next few months. Once finalized, officials stated they plan to report these metrics on a monthly and quarterly basis. Further, officials stated they are working to develop a tiered structure of data analytics and artificial intelligence to apply to PPP lender post-forgiveness portfolios to prioritize reviews. In July 2021, SBA officials told us that they were still finalizing and documenting their PPP review process.
- For lenders that have not participated in SBA programs prior to PPP, SBA officials told us they plan to prioritize reviews based on lender type and risks identified. SBA officials acknowledged increased risk associated with nonbank lenders, nonfederally regulated lenders, and new SBA lenders that may not be familiar with SBA requirements.⁹⁶

⁹⁶Existing 7(a) lenders and some other SBA lenders were automatically approved to participate in PPP, and new lenders had to apply to participate in the program. To maximize the number of borrowers, PPP rules made a variety of lender types eligible, including nonbank and noninsured depository institution lenders that met certain requirements. SBA officials stated that as of February 2021, about 780 lenders new to SBA programs had participated in PPP, 75–80 of which were nonbank lenders. These new lenders were allowed to participate for the duration of the program.

Officials told us they plan to provide training and coaching as necessary to help ensure these lenders understand and comply with program rules. If these lenders wish to participate in SBA's traditional lending programs in the future, SBA will consider lenders' PPP performance and responsiveness to SBA requests as part of the vetting process for participation in traditional SBA lending programs.

Partial Consistency with Standards for Communications in Credit Program Management

We determined SBA's processes for PPP were partially consistent with selected OMB standards for credit program management. Consistent with Circular A-129, SBA collects and reviews performance data, such as the number and dollar amount of loans approved and forgiven, and its loan review plan includes daily, weekly, and other periodic reporting of relevant data to SBA leadership.⁹⁷ However, SBA's communication with lenders during loan forgiveness reviews was not timely.

Circular A-129 standards state that agencies should establish and document a policy for communications with stakeholders, including applicants and lenders, about pending agency decisions on credit support or potential amendments to existing credit support. The policy should address the types of communications required, permissible, and prohibited, along with any accompanying rules and procedures.

SBA has set up tools for lenders and SBA to communicate, such as through a web portal and lender hotline.⁹⁸ However, lenders we surveyed and two lender associations we interviewed told us SBA has not communicated with lenders in a timely manner on the status of loan forgiveness applications. Forty-two of 322 lenders who responded to two open-ended questions in our survey said they attempted to contact SBA,

⁹⁷Circular A-129 states agencies must have robust management and oversight frameworks for credit programs to monitor progress towards achieving policy goals, operating within acceptable risk thresholds, and taking action where appropriate to increase or maintain efficiency and effectiveness. Agencies also must have monitoring, diagnostic, and reporting mechanisms in place to provide senior officials and program managers with a clear understanding of the program's performance.

⁹⁸SBA established a process for communicating with lenders through its PPP loan platform while decisions on applications are pending. Lenders use the platform to submit loan and forgiveness requests, monitor the status of these requests, and receive and respond to requests for additional information from SBA. Lenders also may submit questions related to loan forgiveness through a lender hotline or dedicated email inboxes.

but had not heard back from SBA or received delayed or inconsistent responses. For example, seven of these lenders said they attempted to contact SBA regarding loans that had not received a SBA forgiveness determination within 90 days of the lender submitting its loan forgiveness decision, but they had not heard back from SBA.⁹⁹

Representatives of three lender associations we interviewed and state banking associations also stated that SBA exceeded the 90-day review window and was not responsive to lender inquiries on the status of loan forgiveness determinations. For example, one lender association representative reported some loan forgiveness determinations had been with SBA for more than 140 days. Another association representative stated it had contacted SBA directly to discuss loan forgiveness reviews on behalf of its members, but SBA had not responded to its request. In addition, 51 state banking associations sent a letter to SBA in March 2021 stating that when lenders inquire with SBA about reviews exceeding 90 days, they often are met with silence about when SBA's review will conclude and whether the loans in question will be forgiven. They noted that this lack of information leaves small business borrowers in a state of uncertainty.

Lender association representatives provided additional examples of communication challenges. For example, one association representative told us SBA requested irrelevant supporting documents (such as a utility bill, when a borrower did not indicate loan proceeds were used to pay utilities). Another association representative said SBA had made multiple requests to upload the same information. A representative of another lender association wanted SBA to be more transparent and timely in its communications, both as to why program decisions are made and why loan reviews are delayed.

According to SBA officials, their system for responding to lender inquiries has been ad hoc. They stated that SBA or contractor staff may respond to lender questions, but they do not have a formal process. However, they said they were developing a plan to provide lenders with time frames for completing forgiveness reviews. They estimated the plan would be finalized by summer 2021. While this plan may address some lender

⁹⁹SBA's Loan Review Procedures Interim Final Rule subjected the 90-day remittance deadline to any SBA review of the loan or loan application. 85 Fed. Reg. 33,010, 33,013 (June 1, 2020).

concerns, it is not clear if it will include a process for responding to other questions lenders may have.

Until SBA has developed and implemented a process for responding to lender inquiries, the lack of clear and timely communication will likely continue to contribute to confusion and uncertainty among borrowers and lenders. Borrowers who believed SBA would complete forgiveness reviews in 90 days or less may have made strategic decisions on a business sale or tax planning, and might be forced to postpone or abandon plans because of uncertainty caused by the SBA delay. Lenders face similar challenges, because they remain uncertain whether SBA will remit forgiveness payments or whether the lenders will need to continue servicing loans. Lenders face reputational risk, because borrowers may blame lenders for delays caused by SBA. Lenders also may face increased costs as they divert staff toward managing borrower inquiries related to untimely SBA communication of forgiveness decisions.

Conclusions

SBA moved quickly to implement PPP to help businesses survive during the COVID-19 pandemic. However, SBA initially put limited safeguards in place that left the program vulnerable to improper payments and fraud. SBA has continued to develop and issue rules and guidance in an effort to improve safeguards and be responsive to lenders and borrowers, but we found areas needing additional guidance or evaluation from SBA.

- **Process to address guarantee purchase of PPP loans.** SBA has not finalized a process for PPP lenders to claim the loan guarantee if a borrower ceases operations or defaults on a loan. By finalizing this process, SBA would help lenders avoid prolonged servicing costs on these loans and help free up capital for additional lending.
- **Implementation of advance purchase provision.** SBA has not implemented the CARES Act provision requiring it to purchase PPP loans in advance of SBA forgiving the loan. If SBA does not believe that implementing this provision is necessary, explaining its position to Congress and providing support for its views, including requesting any statutory flexibilities or exceptions believed appropriate, would help ensure that the agency is fulfilling its statutory duties.
- **Procedures for some reviews of borrower eligibility and loan forgiveness decisions.** SBA has not documented policies and procedures for higher authority reviews and reviews conducted by a

committee of senior managers when SBA determines that the borrower is ineligible for a PPP loan or the loan amount or loan forgiveness amount claimed by the borrower. Finalizing and documenting policies and procedures for these reviews would help mitigate the risk of SBA making inconsistent or incorrect determinations on borrower eligibility and loan forgiveness applications.

- **Process to ensure timely communication.** Although SBA developed tools such as a web portal and lender hotline, some lenders who responded to our survey cited SBA delays or unresponsiveness to queries on the status of loan reviews. Without developing and implementing a process to help ensure more timely communication with lenders, borrowers and lenders will likely continue to face confusion and uncertainty, making it difficult for them to make management decisions.

Recommendations for Executive Action

We are making the following four recommendations to SBA:

The SBA Administrator should establish timeframes for finalizing and issuing a PPP-specific loan guarantee purchase process, including allowing lenders to claim the SBA guarantee when they have evidence the business ceased operations or declared bankruptcy.

(Recommendation 1)

The SBA Administrator should implement the advance purchase provision in the CARES Act or report to Congress why the agency has not complied, including seeking statutory flexibilities or exceptions believed appropriate. (Recommendation 2)

The SBA Administrator should establish timeframes for finalizing and issuing its procedures for higher authority reviews and reviews conducted by a committee of senior managers. (Recommendation 3)

The SBA Administrator should develop and implement a process to ensure it responds in a timely manner to PPP lender inquiries on loan reviews. (Recommendation 4)

Agency Comments and Our Evaluation

We provided a draft of this report to SBA and Treasury for their review and comment. SBA provided comments in a letter, which is reproduced in appendix V. In its comments, SBA generally agreed with our four recommendations. SBA and Treasury provided technical comments we incorporated as appropriate.

SBA cited actions it will take to address the recommendations. Specifically, SBA noted it would (1) finalize its guidance defining the PPP-specific loan guarantee purchase process, including allowing lenders to claim the SBA guarantee when they have evidence the business ceased operations or declared bankruptcy; (2) finalize its procedures for higher authority reviews of PPP loans; and (3) provide procedures to ensure timely responses to PPP lender inquiries. On July 15, 2021, SBA released guidance on the guarantee purchase process for PPP loans. We are evaluating how, if at all, this guidance may address the findings in this report.

Regarding our recommendation that SBA implement the advance purchase provision in the CARES Act or report to Congress why the agency has not complied, including seeking statutory flexibilities or exceptions believed appropriate, SBA stated it would not implement this provision because it believes the Federal Reserve's PPP Liquidity Facility provides a better vehicle for lender liquidity. Instead, SBA said it would notify Congress of its request to seek statutory flexibility on this matter or would request that Congress repeal the advance purchase requirement. As we note in the report, if SBA does not believe that implementing this provision is necessary, explaining its position to Congress and providing support for its views, including requesting any statutory flexibilities or exceptions believed appropriate, would help ensure that the agency is fulfilling its statutory duties.

We are sending copies of this report to the appropriate congressional committees, the SBA Administrator, the Secretary of the Treasury, 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 me at (202) 512-8678 or shearw@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 listed in appendix VI.

A handwritten signature in black ink that reads "William B. Shear". The signature is written in a cursive, flowing style.

William B. Shear
Director, Financial Markets and
Community Investment

Congressional Addressees

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

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Patty Murray
Chair
The Honorable Richard Burr
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Gary C. Peters
Chair
The Honorable Rob Portman
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Benjamin Cardin
Chairman
The Honorable Rand Paul
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

Congressional Addressees Continued

The Honorable Kyrsten Sinema
Chair
The Honorable James Lankford
Ranking Member

Subcommittee on Government Operations and Border Management
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Rosa L. DeLauro
Chairwoman
The Honorable Kay Granger
Ranking Member
Committee on Appropriations
House of Representatives

The Honorable Frank Pallone, Jr.
Chairman
The Honorable Cathy McMorris Rodgers
Republican Leader
Committee on Energy and Commerce
House of Representatives

The Honorable Bennie G. Thompson
Chairman
The Honorable John Katko
Ranking Member
Committee on Homeland Security
House of Representatives

The Honorable Carolyn B. Maloney
Chairwoman
The Honorable James Comer
Ranking Member
Committee on Oversight and Reform
House of Representatives

Congressional Addressees Continued

The Honorable Nydia M. Velázquez
Chairwoman
The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
House of Representatives

The Honorable Richard Neal
Chair

The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

The Honorable Elizabeth Warren
United States Senate

The Honorable Earl Blumenauer
House of Representatives

The Honorable Steve Cohen
House of Representatives

The Honorable Peter A. DeFazio
House of Representatives

The Honorable Diana DeGette
House of Representatives

The Honorable Mike Doyle
House of Representatives

The Honorable John Garamendi
House of Representatives

The Honorable Raúl M. Grijalva
House of Representatives

The Honorable Jahana Hayes
House of Representatives

Congressional Addressees Continued

The Honorable Henry C. Johnson, Jr.
House of Representatives

The Honorable Barbara Lee
House of Representatives

The Honorable Mike Levin
House of Representatives

The Honorable James P. McGovern
House of Representatives

The Honorable Grace F. Napolitano
House of Representatives

The Honorable Eleanor Holmes Norton
House of Representatives

The Honorable Chellie Pingree
House of Representatives

The Honorable Ayanna Pressley
House of Representatives

The Honorable Mary Gay Scanlon
House of Representatives

The Honorable Jan Schakowsky
House of Representatives

The Honorable Adam Smith
House of Representatives

The Honorable Darren Soto
House of Representatives

The Honorable Jackie Speier
House of Representatives

Congressional Addressees Continued

The Honorable Rashida Tlaib
House of Representatives

The Honorable Paul Tonko
House of Representatives

The Honorable Norma J. Torres
House of Representatives

The Honorable Bonnie Watson Coleman
House of Representatives

Letter

The Honorable Frederica S. Wilson
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines (1) safeguards that the Small Business Administration (SBA) put in place during the Paycheck Protection Program (PPP) loan approval process, (2) the PPP loan forgiveness process, including processes for unforgiven loans, and (3) SBA's oversight of PPP loans and lenders.

For all of the objectives, we interviewed officials from SBA's Office of Capital Access, which administers PPP. We also interviewed representatives of the following four lending industry associations to obtain their perspectives on SBA's implementation of PPP: American Bankers Association, National Association of Federally-Insured Credit Unions, National Association of Government Guaranteed Lenders, and Opportunity Finance Network.¹ We selected these organizations because they represent a variety of lenders that offered PPP loans, including banks, credit unions, and community-based financial institutions. Their views are not generalizable to other lender associations but offered important perspectives. In addition, we interviewed officials from the Department of the Treasury (Treasury) to get their perspective on PPP implementation.

To gain lenders' perspectives on SBA's implementation of PPP, including the PPP loan approval and loan forgiveness processes, we administered a web-based survey to a representative sample of PPP lenders. In the survey, we asked lenders about characteristics of their PPP loans, SBA guidance, the level of resources required to participate in PPP, and challenges encountered through program participation. We administered the survey from February 2021 to April 2021, and we collected information for the 14-month period from March 2020 to April 2021. Appendix II contains information on the survey results.

¹The American Bankers Association represents banks of all sizes; the National Association of Federally-Insured Credit Unions represents federally-insured credit unions; National Association of Government Guaranteed Lenders represents members of the small business lending community that use SBA business loan programs; and the Opportunity Finance Network represents Community Development Financial Institutions.

To identify the universe of PPP lenders, we used data provided by SBA on August 3, 2020, which contained 5,466 lenders. We stratified our sample (seven strata) and used a stratified random sample of each: (1) small banks and savings and loans, (2) medium banks and savings and loans, (3) large banks and savings and loans, (4) extra-large banks, (5) credit unions, (6) nonbank lending institutions, and (7) minority-owned depository institutions and community development financial institutions.²

Our initial sample size was designed to achieve a stratum-level margin of error of no greater than plus or minus 8 percentage points for an attribute level at the 95 percent level of confidence. We assumed a response rate of 50 percent to determine the sample size for each stratum. Because there were nine extra-large banks in the population, we included all of them in the sample. Fifteen of the lenders included in the population list lacked sufficient information for us to determine their appropriate stratum. We treated these sample cases as out-of-scope; this adjusted our population of lenders to 5,451. Our resulting sample size was 1,383, and we received 781 survey responses.

Because we followed a probability procedure based on random selections, our sample is one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (for example, plus or minus 8 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. Confidence intervals are provided with each sample estimate in the report. All survey results presented in the body of this report are generalizable to the estimated population of 5,451 in-scope depository institutions, except where otherwise noted.

To select lenders for interview, we drew a stratified sample using six sampling strata: (1) small banks and savings and loans, (2) medium banks and savings and loan, (3) large banks and savings and loan, (4) credit unions, (5) nonbank lending institutions, and (6) community

²We defined small banks and savings and loans as those with less than \$250 million in total assets, medium banks and savings and loans as those with \$250 million or more and less than \$1 billion in total assets, large banks and savings and loans as those with \$1 billion or more and less than \$250 billion in total assets, and extra-large banks as those with \$250 billion or more in total assets.

development financial institutions.³ We also selected lenders to achieve variation in (1) whether lenders had previously participated in SBA lending programs (or were new to SBA lending), (2) whether lenders were a minority-owned depository institution, and (3) geography, using regions identified in a Census Bureau map. We conducted pretests of the survey with the seven banks we interviewed to ensure survey questions were clear, obtain any suggestions for clarification, and determine whether representatives would be able to provide responses to questions with minimal burden.

To examine the safeguards SBA put in place during the PPP loan approval process, we analyzed key provisions related to PPP in the CARES Act, the Paycheck Protection Program and Health Care Enhancement Act, the Consolidated Appropriations Act, 2021, and the American Rescue Plan Act, among others.⁴ We also analyzed SBA's design and implementation of those provisions based on interim final rules, procedural notices, and responses to frequently asked questions (FAQ), including changes to the program SBA made when it launched Round 2 in January 2021. We reviewed SBA's annual financial statement audit, reports issued by the SBA Office of Inspector General, and prior GAO reports.⁵

To analyze lending activity for PPP loans issued to borrowers charged by the Department of Justice (DOJ), we identified fraud-related cases by

³We defined small banks and savings and loans as those with less than \$10 billion in total assets, medium banks and savings and loans as those with \$10 billion or more and less than \$1 trillion in total assets, and large banks as those with \$1 trillion or more in total assets.

⁴Pub. L. No. 116-136, 134 Stat. 281, (2020); Pub. L. No. 116-139, 134 Stat. 620 (2020); Pub. L. No. 116-260, div. N, tit. III, 134 Stat. 1182, 1993 (2020); and Pub. L. No. 117-2, § 5001, 135 Stat. 4, 81 (2021).

⁵For example, Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020); Small Business Administration, Office of Inspector General, *Flash Report: Duplicate Loans Made Under the Paycheck Protection Program*, Report No. 21-09 (Washington, D.C.: Mar. 15, 2021); GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020); *COVID-19: Brief Update on Initial Federal Response to the Pandemic*, [GAO-20-708](#) (Washington, D.C.: Aug. 31, 2020); *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, [GAO-20-701](#) (Washington, D.C.: Sept. 21, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021); and *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021).

reviewing publicly available DOJ and court information as of March 2021. We compared borrowers identified through DOJ cases to PPP loan-level data, which contained associated lender information. We did not conduct in-depth analyses of lender antifraud controls. We interviewed three industry professionals with knowledge of synthetic identity fraud, lending fraud, and financial crime selected based on previous GAO work and subject matter expertise.

To examine the PPP loan forgiveness process, including processes for unforgiven loans, we analyzed key statutory provisions in PPP-related legislation. We analyzed SBA's design and implementation of those provisions based on interim final rules, procedural notices, FAQs, and loan forgiveness forms. Additionally, we interviewed agency officials from SBA and Treasury, officials from an SBA contractor that developed the PPP loan forgiveness platform, and officials from an SBA contractor that conducted PPP loan reviews to get their perspectives on the development and implementation of the loan forgiveness process. We compared SBA's policies and processes against government-wide guidance for the management and operation of federal credit programs contained in the Office of Management and Budget's (OMB) Circular A-129 and the CARES Act.⁶

We also analyzed loan-level data on loan forgiveness from SBA's Paycheck Protection Platform as of May 17, 2021.⁷ We limited our review to loans made during 2020 (Round 1) because those borrowers were more likely to have used their loan proceeds and begun applying for loan forgiveness. We used these data to develop summary statistics regarding which borrowers had applied for and received loan forgiveness, and SBA's review of those applications. We determined these data were sufficiently reliable for the purposes of describing characteristics associated with SBA's processing of loan forgiveness applications by reviewing related documentation, interviewing knowledgeable agency officials, and performing electronic testing.

⁶Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (Washington, D.C.: January 2013). Pub. L. No. 116-136, 134 Stat. 281 (2020).

⁷The SBA Paycheck Protection Platform is the platform PPP lenders use to submit loan forgiveness decisions to PPP. In addition, lenders used the platform to submit new loan applications during Round 2.

To examine SBA's oversight of PPP loans and lenders, we reviewed public rules and guidance issued by SBA for PPP borrowers and lenders, as well as internal SBA policies and procedures covering PPP loan reviews and loan forgiveness reviews. We compared these policies and procedures against federal internal control standards.⁸ We determined that the control activities component of internal controls was significant to the objective, along with the underlying principle that management should document in policies the control responsibilities of the organization. We reviewed the loan eligibility and forgiveness review policies to determine whether all processes were documented. Additionally, we interviewed officials from an SBA contractor that conducted PPP loan reviews and officials from an SBA contractor that tested SBA's PPP loan review process for quality assurance. We obtained these officials' perspectives on the development and implementation of the loan review process.

We also compared SBA's policies and procedures for managing elements of PPP against government-wide guidance for the management and operation of federal credit programs in OMB Circular A-129. We focused our comparison on consistency with selected standards in OMB Circular A-129's Section III, Credit Extension and Management Policy, which covers applicant screening, loan documentation and collateral, managing lenders and servicers, and credit program management. For each standard, we assessed whether it was applicable to PPP, and if so, whether SBA's processes, as described in related rules, guidance, policies, and procedures, were consistent with the selected standard.⁹

We conducted this performance audit from June 2020 to July 2021 in accordance with generally accepted government auditing standards. 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

⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

⁹Where we deemed selected standards not applicable to PPP, we based that determination on the provisions of the CARES Act or other legislation. For example, the CARES Act waived requirements related to borrower personal guarantees and collateral, so we deemed Circular A-129 standards related to these topics to be not applicable. In some instances, the CARES Act requires a departure from standards that prevent full consistency. For example, the CARES Act explicitly waives the "credit elsewhere" test that is normally required as part of applicant screening. In these cases, we assessed whether SBA processes were consistent with standards to the extent practicable given limitations or waivers imposed in legislation.

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Results from Survey of Paycheck Protection Program Lenders

From February 2021 to April 2021, we administered a web-based survey to a representative sample of Paycheck Protection Program (PPP) lenders. In the survey, we asked lenders about characteristics of their PPP loans, Small Business Administration (SBA) guidance, the level of resources required to participate in PPP, and challenges encountered through program participation. We collected information for the 14-month period from March 2020 to April 2021. All survey results presented in this appendix are generalizable to the population of lenders, except where otherwise noted. We obtained a weighted response rate of 57.3 percent.¹

Because our estimates are from a generalizable sample, we express our confidence in the precision of our particular estimates as 95 percent confidence intervals. Our survey was comprised of closed- and open-ended questions. In this appendix, we do not provide information on responses to the open-ended questions. For a more detailed discussion of our survey methodology, see appendix I.

Table 4: How many PPP applications did your organization receive? (Question 1)

Estimated mean	95 percent confidence interval—lower bound	95 percent confidence interval—upper bound
1,512	811	2,213

Source: GAO. | GAO-21-577

Table 5: How many PPP loans did your organization fund? (Question 2)

Estimated mean	95 percent confidence interval—lower bound	95 percent confidence interval—upper bound
1,179	692	1,666

Source: GAO. | GAO-21-577

¹We used a weighted response rate because our survey sample incorporates strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, large units that contribute relatively more to the estimate of a total would have a larger “weight” on the response rate.

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Table 6: In general, did your organization accept applications from the following types of borrowers? (Question 3)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
3a. Borrowers with whom you had no prior relationship	Yes	75.5	72.5	78.5
	No	22.8	19.9	25.8
	n/a	1.6	0.9	2.8
3b. Borrowers with whom you had a prior depository relationship	Yes	96.1	94.5	97.4
	No	0.6	0.2	1.5
	n/a	3.3	2.1	4.8
3c. Borrowers with whom you had a prior lending relationship	Yes	97.9	96.6	98.8
	No	0.9	0.3	1.8
	n/a	1.2	0.6	2.3

Legend: n/a = not applicable

Source: GAO. | GAO-21-577

Table 7: Among PPP loan applications that your institution did not approve, how common was each of the following reasons for why your organization did not approve an application? (Question 4)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
4a. Applicant was not eligible based on program requirements	Very common	27.7	24.5	30.9
	Moderately common	12.1	9.9	14.3
	Somewhat common	22.9	19.9	25.8
	Not at all common	29.5	26.2	32.8
	Do not know	7.9	6.0	10.1
4b. Applicant did not provide all necessary documentation	Very common	13.7	11.4	16.1
	Moderately common	10.4	8.4	12.4
	Somewhat common	25.1	22.1	28.1
	Not at all common	41.8	38.3	45.3
	Do not know	9.0	7.0	11.4
4c. Applicant had already received or applied for another PPP loan	Very common	8.1	6.2	10.3
	Moderately common	8.4	6.5	10.7
	Somewhat common	20.1	17.3	22.9
	Not at all common	54.2	50.7	57.8
	Do not know	9.2	7.1	11.6
4d. Applicant withdrew application	Very common	8.7	6.7	11.0
	Moderately common	6.0	4.4	8.0
	Somewhat common	26.2	23.2	29.2

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Not at all common	51.2	47.7	54.8
Do not know	7.9	6.0	10.1

Source: GAO. | GAO-21-577

Table 8: Approximately what percentage of your organization’s approved PPP loans went to existing clients (those with either a previous depository or lending relationship)? (Question 5)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
0–25 percent	4.6	3.2	6.3
26–50 percent	5.2	3.7	7.0
51–75 percent	19.1	16.4	21.8
76–100 percent	68.2	65.1	71.3
Do not know	2.9	1.9	4.4

Source: GAO. | GAO-21-577

Table 9: Considering the information provided by SBA for the PPP loan guarantees that were available through August 8, 2020, how helpful to your organization was the information about the loan approval process (e.g., interim final rules, FAQs, training)? (Question 6)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Very helpful	18.9	16.2	21.7
Moderately helpful	37.6	34.2	41.0
Somewhat helpful	38.9	35.5	42.3
Not helpful	4.2	2.9	5.9
Do not know	0.4	0.1	1.1

Source: GAO. | GAO-21-577

Table 10: How did the level of resources required for processing and approving loan applications differ from your expectations when you started participating in the program? (Question 7)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Much higher	18.8	16.3	21.3
Higher	28.0	24.9	31.1
As expected	34.2	30.8	37.6
Lower	12.7	10.3	15.1
Much lower	4.3	3.0	6.0
Do not know	2.0	1.1	3.3

Source: GAO. | GAO-21-577

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Table 11: How challenging, if at all, was each of the following to your organization when approving PPP loan applications from borrowers? (Question 8)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
8a. Incomplete application forms from borrowers	Very challenging	18.4	15.9	20.8
	Moderately challenging	32.5	29.3	35.8
	Somewhat challenging	34.5	31.1	37.8
	Not at all challenging	14.1	11.6	16.7
	Do not know	0.5	0.1	1.3
8b. Insufficient documentation from borrowers	Very challenging	18.7	16.3	21.2
	Moderately challenging	34.2	31.0	37.5
	Somewhat challenging	33.7	30.4	37.1
	Not at all challenging	12.8	10.3	15.3
	Do not know	0.5	0.1	1.3
8c. Borrowers' lack of understanding of PPP terms and conditions	Very challenging	32.5	29.3	35.6
	Moderately challenging	34.1	30.8	37.5
	Somewhat challenging	25.4	22.3	28.5
	Not at all challenging	7.4	5.6	9.6
	Do not know	0.6	0.2	1.4
8d. Changes in program rules and guidance from SBA (e.g., interim final rules, FAQs)	Very challenging	61.9	58.5	65.4
	Moderately challenging	24.6	21.5	27.7
	Somewhat challenging	10.5	8.3	12.7
	Not at all challenging	2.4	1.4	3.8
	Do not know	0.6	0.2	1.4
8e. Lack of central SBA document containing program rules and guidance	Very challenging	43.9	40.5	47.4
	Moderately challenging	31.4	28.1	34.6
	Somewhat challenging	18.1	15.4	20.8
	Not at all challenging	5.6	4.1	7.5
	Do not know	1.0	0.4	2.0
8f. Borrowers flagged in E-Tran for submitting multiple applications after your organization had processed the loan	Very challenging	6.5	4.9	8.5
	Moderately challenging	10.0	8.2	11.9
	Somewhat challenging	25.9	22.8	28.9
	Not at all challenging	51.6	48.1	55.0

Appendix II: Results from Survey of Paycheck Protection Program Lenders

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
	Do not know	6.0	4.4	7.9
8g. Getting SBA preferred lender status	Very challenging	6.4	4.7	8.5
	Moderately challenging	7.2	5.5	9.3
	Somewhat challenging	13.0	10.6	15.5
	Not at all challenging	59.6	56.1	63.0
	Do not know	13.8	11.4	16.2
8h. Getting initial access to E-Tran	Very challenging	24.5	21.4	27.6
	Moderately challenging	15.9	13.3	18.5
	Somewhat challenging	20.7	17.8	23.6
	Not at all challenging	36.8	33.5	40.1
	Do not know	2.1	1.2	3.3
8i. Getting access to E-Tran for additional users	Very challenging	15.5	12.9	18.2
	Moderately challenging	17.3	14.7	20.0
	Somewhat challenging	24.4	21.4	27.4
	Not at all challenging	35.9	32.6	39.3
	Do not know	6.8	5.1	8.8
8j. Loan application processing time in E-Tran took longer than expected	Very challenging	21.4	18.5	24.3
	Moderately challenging	18.9	16.1	21.7
	Somewhat challenging	20.1	17.3	22.9
	Not at all challenging	37.6	34.2	40.9
	Do not know	2.1	1.2	3.3
8k. Greater risk to your institution than originally expected	Very challenging	5.7	4.2	7.6
	Moderately challenging	12.6	10.5	14.8
	Somewhat challenging	26.3	23.2	29.3
	Not at all challenging	50.1	46.6	53.5
	Do not know	5.4	3.9	7.2

Source: GAO. | GAO-21-577

Table 12: Did your organization use internal staff, a third-party vendor, or both to intake or review PPP loan applications or to submit those applications to SBA? (Question 9)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Internal staff	83.6	81.2	85.9
Third-party vendor	1.5	0.8	2.6
Both	14.9	12.6	17.2

Source: GAO. | GAO-21-577

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Table 13: Did your organization use the Federal Reserve’s PPP Liquidity Facility (PPPLF)? (Question 10)

Responses	Estimated percentage	95 percent confidence interval— lower bound (percentage)	95 percent confidence interval— upper bound (percentage)
Yes	11.2	9.1	13.4
No, aware of PPPLF	50.6	47.2	54.1
No, unaware of PPPLF	28.0	25.0	31.1
Do not know	10.1	8.1	12.1

Source: GAO. | GAO-21-577

Table 14: How helpful has the PPPLF been to your organization? (Question 10b)

Responses	Estimated percentage	95 percent confidence interval— lower bound (percentage)	95 percent confidence interval— upper bound (percentage)
Very helpful	54.8	44.4	65.1
Moderately helpful	13.6	7.3	22.3
Somewhat helpful	24.5	15.6	35.2
Not helpful	3.7	0.8	9.9
Do not know	3.5	0.8	9.6

Source: GAO. | GAO-21-577

Note: This question was only asked of lenders that answered yes to using the Federal Reserve’s PPP Liquidity Facility (question 10).

Table 15: Considering the information provided by SBA, how helpful to your organization was the information about the loan forgiveness process (e.g., interim final rules, FAQs, training)? (Question 11)

Responses	Estimated percentage	95 percent confidence interval— lower bound (percentage)	95 percent confidence interval— upper bound (percentage)
Very helpful	18.7	15.9	21.5
Moderately helpful	39.7	36.2	43.1
Somewhat helpful	35.4	32.1	38.7
Not helpful	5.9	4.3	7.8
Do not know	0.3	0.0	1.0

Source: GAO. | GAO-21-577

Table 16: How has the level of resources required for making loan forgiveness decisions differed from your expectations when you started participating in the program? (Question 12)

Responses	Estimated percentage	95 percent confidence interval— lower bound (percentage)	95 percent confidence interval— upper bound (percentage)
Much higher	14.4	12.0	16.7
Higher	23.2	20.4	26.1
As expected	49.1	45.7	52.6
Lower	9.6	7.5	11.6

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Much lower	2.0	1.1	3.2
Do not know	1.7	0.9	2.8

Source: GAO. | GAO-21-577

Table 17: On average, about how many staff hours has it taken your organization to review a borrower’s loan forgiveness form and related documentation and submit your loan forgiveness decision to SBA? (Question 13)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
13a. Form 3508	Less than 1 hour	18.2	15.3	21.0
	1–3 hours	41.8	38.3	45.3
	4–6 hours	18.9	16.2	21.7
	7–10 hours	3.8	2.5	5.4
	More than 10 hours	3.6	2.4	5.2
	Do not know	13.7	11.3	16.1
13b. Form 3508EZ	Less than 1 hour	40.7	37.2	44.1
	1–3 hours	44.8	41.3	48.3
	4–6 hours	6.0	4.4	7.9
	7–10 hours	0.9	0.3	1.8
	More than 10 hours	1.3	0.6	2.4
	Do not know	6.4	4.8	8.4
13c. Form 3508S	Less than 1 hour	63.1	59.7	66.4
	1–3 hours	26.3	23.2	29.4
	4–6 hours	2.7	1.7	4.1
	7–10 hours	0.1	0.0	0.7
	More than 10 hours	1.4	0.6	2.6
	Do not know	6.5	4.8	8.5

Source: GAO. | GAO-21-577

Table 18: About what percentage of loan forgiveness applications received to date were submitted with Form 3508, Form 3508EZ, and Form 3508S? (Question 14)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
14a. Form 3508	0–25 percent	72.4	69.3	75.6
	26–50 percent	7.2	5.4	9.3
	51–75 percent	2.3	1.3	3.7
	76–100 percent	3.6	2.3	5.3
	Do not know	14.5	12.0	16.9

Appendix II: Results from Survey of Paycheck Protection Program Lenders

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
14b. Form 3508EZ	0–25 percent	26.9	23.8	29.9
	26–50 percent	32.2	29.0	35.5
	51–75 percent	16.5	13.9	19.1
	76–100 percent	11.5	9.2	13.8
	Do not know	12.9	10.6	15.1
14c. Form 3508S	0–25 percent	17.0	14.3	19.6
	26–50 percent	22.7	19.7	25.7
	51–75 percent	25.3	22.2	28.4
	76–100 percent	20.8	17.9	23.7
	Do not know	14.2	11.9	16.6

Source: GAO. | GAO-21-577

Table 19: For what parts of the loan forgiveness process does your organization use internal staff, a third-party vendor, or both to process loan forgiveness applications? (Question 15)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
15a. Application receipt	Internal staff	82.3	80.0	84.7
	Third-party vendor	9.5	7.7	11.2
	Both	8.2	6.4	10.4
15b. Document sufficiency review	Internal staff	91.1	89.3	92.8
	Third-party vendor	2.6	1.6	4.0
	Both	6.3	4.7	8.3
15c. Forgiveness decision determination	Internal staff	93.5	91.5	95.1
	Third-party vendor	1.5	0.8	2.7
	Both	5.0	3.6	6.8
15d. Decision submission to SBA	Internal staff	86.3	84.2	88.4
	Third-party vendor	6.9	5.3	9.0
	Both	6.7	5.1	8.7
15e. Processing after SBA loan review	Internal staff	91.7	89.5	93.5
	Third-party vendor	1.9	1.1	3.2
	Both	6.4	4.8	8.4

Source: GAO. | GAO-21-577

Appendix II: Results from Survey of Paycheck Protection Program Lenders

Table 20: How challenging, if at all, are each of the following to your organization during the loan forgiveness process? (Question 16)

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
16a. Incomplete application forms from borrowers	Very challenging	17.7	15.2	20.2
	Moderately challenging	32.9	29.6	36.1
	Somewhat challenging	34.7	31.4	38.1
	Not at all challenging	13.4	11.0	15.9
	Do not know	1.2	0.6	2.3
16b. Insufficient documentation from borrowers	Very challenging	21.8	19.2	24.4
	Moderately challenging	34.4	31.1	37.7
	Somewhat challenging	31.2	27.9	34.5
	Not at all challenging	11.4	9.0	13.7
	Do not know	1.2	0.6	2.3
16c. Borrowers' lack of understanding of the PPP loan forgiveness process	Very challenging	29.6	26.5	32.6
	Moderately challenging	31.8	28.6	35.1
	Somewhat challenging	28.4	25.2	31.6
	Not at all challenging	8.9	6.9	11.3
	Do not know	1.3	0.6	2.3
16d. Incorrect calculations submitted by borrowers, such as inclusion of ineligible expenses	Very challenging	14.6	12.3	16.9
	Moderately challenging	28.5	25.3	31.6
	Somewhat challenging	34.7	31.3	38.1
	Not at all challenging	20.8	17.9	23.8
	Do not know	1.4	0.7	2.5
16e. Changes in program guidance and rules from SBA (e.g., interim final rules, FAQs)	Very challenging	39.0	35.6	42.4
	Moderately challenging	29.6	26.4	32.8
	Somewhat challenging	22.2	19.2	25.1
	Not at all challenging	7.9	6.1	10.1
	Do not know	1.3	0.7	2.4
16f. Lack of central SBA document containing program rules and guidance	Very challenging	33.0	29.8	36.3
	Moderately challenging	25.0	22.0	28.0
	Somewhat challenging	26.9	23.7	30.0
	Not at all challenging	13.0	10.6	15.3
	Do not know	2.1	1.2	3.4
	Very challenging	3.1	2.0	4.6
	Moderately challenging	7.6	5.8	9.7
	Somewhat challenging	23.9	20.9	27.0

Appendix II: Results from Survey of Paycheck Protection Program Lenders

	Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
16g. Submitting loan forgiveness decisions through SBA's PPP loan forgiveness portal	Not at all challenging	62.6	59.2	66.0
	Do not know	2.7	1.7	4.2
16h. Uncertainty regarding loan reimbursement from SBA in cases of borrower bankruptcy, business closing, or death	Very challenging	11.9	9.7	14.1
	Moderately challenging	13.6	11.2	16.0
	Somewhat challenging	20.5	17.7	23.3
	Not at all challenging	35.7	32.3	39.1
	Do not know	18.3	15.6	20.9

Source: GAO. | GAO-21-577

Table 21: Considering the information provided by SBA for the PPP loan guarantees that were available on or after January 11, 2021, how helpful to your organization was the information about the loan approval process (e.g., interim final rules, FAQs, training)? (Question 17)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Very helpful	21.2	18.3	24.0
Moderately helpful	39.8	36.4	43.2
Somewhat helpful	32.4	29.1	35.7
Not helpful	4.9	3.5	6.7
Do not know	1.7	0.9	2.9

Source: GAO. | GAO-21-577

Table 22: How helpful was the information provided by SBA for the loan guarantees that became available on or after January 11, 2021, compared to the information SBA provided on funding available through August 8, 2020? (Question 18)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Much more helpful	24.5	21.5	27.4
Slightly more helpful	38.6	35.1	42.0
Similarly helpful	27.8	24.7	30.9
Slightly less helpful	3.9	2.6	5.6
Much less helpful	2.0	1.2	3.3
Do not know	3.3	2.2	4.8

Source: GAO. | GAO-21-577

**Appendix II: Results from Survey of Paycheck
Protection Program Lenders**

Table 23: How have the costs to your organization of participating in PPP differed from expectations when your organization began participating in the program? (Question 21)

Responses	Estimated percentage	95 percent confidence interval— lower bound (percentage)	95 percent confidence interval— upper bound (percentage)
Much higher	11.5	9.3	13.7
Higher	30.0	26.9	33.2
As expected	47.3	43.8	50.8
Lower	3.1	2.0	4.8
Much lower	1.0	0.4	2.1
Do not know	7.1	5.4	9.1

Source: GAO. | GAO-21-577

Appendix III: Key Paycheck Protection Program Implementation Decisions

The CARES Act and related statutes have authorized approximately \$814 billion in commitment authority for the Paycheck Protection Program (PPP) under the Small Business Administration’s (SBA) 7(a) small business lending program. Congress substantially outlined the structure for PPP in the CARES Act and subsequent legislation, but it left key policy decisions for SBA and the Department of the Treasury (Treasury). To date, SBA and Treasury have posted approximately 30 interim final rules implementing the PPP program, along with a number of guidance documents, lender and borrower forms, and educational materials. The agencies’ implementation decisions have affected both borrowers and lenders, and SBA and Treasury have periodically adjusted these decisions in response to new legislation since the CARES Act was passed. See table 24 for a summary of these decisions.

Table 24: Key SBA or Treasury Implementation Decisions for Paycheck Protection Program

Provision	Statutory terms	Implemented terms
Interest rate	CARES Act: Not more than 4 percent	1 percent
Maturity period	CARES Act: Maximum of 10 years from date of forgiveness application	2 years
	Subsequent provisions: Not less than 5 years	5 years
Loan usage – nonpayroll costs	CARES Act: No applicable language	Not more than 25 percent nonpayroll costs
	Subsequent provisions: Not more than 40 percent of nonpayroll costs	Not more than 40 percent nonpayroll costs
Deferment period	CARES Act: Not less than 6 months and not more than 1 year	6 months
	Subsequent provisions: The day when the loan forgiveness amount is remitted to the lender, as long as the borrower applies for forgiveness within 10 months of the end of the covered period ^a	The day when the loan forgiveness amount is remitted to the lender, as long as the borrower applies for forgiveness within 10 months of the end of the covered period

Appendix III: Key Paycheck Protection Program Implementation Decisions

Provision	Statutory terms	Implemented terms
Approved lenders	CARES Act: 7(a) lenders plus additional lenders deemed to have the necessary qualifications to process, close, disburse, and service PPP loans	Any qualified federally insured depository institution or credit union, any Farm Credit System institution, and any other depository or nondepository lender that met criteria such as maintaining a formalized compliance program, applying the Bank Secrecy Act requirements of an equivalent federally regulated financial institution, and handling over a certain amount of business loans or other commercial financial receivables
Expanded borrowers	CARES Act: Expanded eligibility to business types typically not covered by the 7(a) program	Opened PPP applications to both typical 7(a) borrowers and expanded category borrowers
	Subsequent provisions: Further expanded PPP borrower eligibility to new business types and businesses owned by owners typically disqualified from 7(a)	Further expanded eligibility in acknowledgement of statutory changes
Loans to underserved borrowers	CARES Act: Sense of the Senate provision that SBA should issue guidance to lenders to ensure that the processing and disbursement of PPP loans prioritized small business concerns and entities in underserved and rural markets	Program set up as first-come, first-served; a June 2020 letter asked lenders to “redouble” efforts to assist borrowers from these communities
	Subsequent provisions: \$60 billion in funds set aside for small lenders and community financial institutions	Of this amount, \$10 billion in funds specifically set aside for community development financial institutions
	All PPP applications must include a means by which a borrower can choose to submit their demographic information	Beginning in early January 2021, all PPP borrower applications have included an optional demographic information section

Legend: PPP = Paycheck Protection Program; SBA = Small Business Administration; Treasury = Department of the Treasury

Source: GAO analyses. | GAO-21-577

³The “covered period” is the period following receipt of a PPP loan during which borrowers can spend the loan proceeds on covered expenses. The covered period begins on the date a lender disburses the loan and ends on a date selected by the borrower during the period between 8 and 24 weeks after disbursement.

Interest rate. The CARES Act set the interest rate for PPP loans at no more than 4 percent.¹ In its first interim final rule, originally posted to SBA’s website on April 2, 2020, SBA set the interest rate for PPP loans at 1 percent.² SBA stated that, in consultation with Treasury, it determined that a 1 percent interest rate was appropriate because it provides low-cost funds to borrowers while providing an attractive interest rate to lenders. According to the rule, the interest rate on PPP loans exceeded

¹Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 291 (2020) (codified at 15 U.S.C. § 636(a)(36)(L)).

²85 Fed. Reg. 20,811, 20,813, 20,816 (Apr. 15, 2020).

comparable rates offered by certificate of deposit products and Treasury securities of comparable maturity.³ SBA also stated that the interest rate, when considered together with the 100 percent SBA loan guarantee and the loan-processing fee, should “provide ample inducement for lenders to participate in the PPP.”

Maturity. The CARES Act set the maximum maturity for PPP loans at no more than 10 years.⁴ In its first interim final rule, SBA set the maturity at 2 years.⁵ In the rule, SBA stated that, in consultation with Treasury, it determined that a 2-year loan term was sufficient “in light of the temporary economic dislocations caused by the coronavirus.” Specifically, SBA stated that since it expected the economic disruption to abate well before the 2-year maturity date, such borrowers would be able to recommence operations and pay off any unforgiven outstanding balances within that period.

Enacted on June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 amended the Small Business Act to require a minimum maturity of 5 years for PPP loans.⁶ In mid-June 2020, SBA posted an interim final rule amending the first PPP interim final rule to incorporate those changes.⁷ In the June 2020 rule, SBA set the maturity for all PPP loans made on or after June 5, 2020, as 5 years. In setting the new loan term, SBA repeated its rationale for the original 2-year maturity. The rule also stated that borrowers and lenders may mutually agree to extend the maturity of loans made before June 5, 2020, from 2 years to 5 years. SBA stated that it would use the date that SBA assigns a loan number to the PPP loan for determining when the loan was made because it provides “an efficient, transparent, and auditable” standard. On June 25, 2020, SBA posted an answer to its PPP frequently asked questions that

³At the time of SBA’s analysis, the maturity for PPP loans was 2 years.

⁴Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 291 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(K)).

⁵85 Fed. Reg. 20,811, 20,813 (Apr. 15, 2020).

⁶Pub. L. No. 116-142, § 2, 134 Stat. 641 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(K)).

⁷85 Fed. Reg. 36,308, 36,310 (June 16, 2020).

reiterated the updated maturity date terms and said the promissory note for the PPP loan would state the term of the loan.⁸

Loan usage. Under the CARES Act, PPP loans may be used for both payroll costs and certain other purposes.⁹ In its first interim final rule, SBA required that no more than 25 percent of the PPP loan forgiveness amount be attributable to nonpayroll costs.¹⁰ The Paycheck Protection Program Flexibility Act modified this limit to 40 percent, and SBA subsequently amended its rule to reflect this change.¹¹ In implementing this change, SBA interpreted the new requirement as a proportional limit on loan forgiveness rather than a bright-line threshold, because it found that treating the requirement as such a threshold would be contrary to the intent of the statutory change. Subsequent legislation has expanded forgivable nonpayroll costs for PPP loans (for example, to include categories such as covered property damage costs and worker protection expenditures).¹²

Deferment period. The CARES Act required SBA to instruct lenders to provide a deferment period on PPP loan payments of no less than 6 months and no more than 1 year.¹³ In its first interim final rule, SBA instituted a 6-month deferment period, stating this period was appropriate in light of the modest 1 percent interest rate and the PPP loan forgiveness provisions.¹⁴ In June 2020, Congress amended the PPP deferment period

⁸Small Business Administration, Paycheck Protection Program Loans, Frequently Asked Questions, question 49 (2020), <https://www.sba.gov/document/support-faq-ppp-borrowers-lenders>.

⁹Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 290 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(F)).

¹⁰85 Fed. Reg. 20,811, 20,813-14 (Apr. 15, 2020). Nonpayroll costs include categories such as rent, utilities, and mortgage interest. See 15 U.S.C. § 636(a)(36)(F); 86 Fed. Reg. 3692, 3702-05, (Jan. 14, 2021); 86 Fed. Reg. 13,149 (Mar. 8, 2021); 86 Fed. Reg. 15,083 (Mar. 22, 2021).

¹¹Pub. L. No. 116-142, § 3, 134 Stat. 641, 642 (2020) (codified as amended at 15 U.S.C. § 636m(d)(8)); 85 Fed. Reg. 36,308, 36,310-11 (June 16, 2020).

¹²Pub. L. No. 116-260, div. N, tit. III, § 304(a), 134 Stat. 1182, 1993 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(F)(i)); 86 Fed. Reg. 8283, 8286-87 (Feb. 5, 2021).

¹³Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 292 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(M)).

¹⁴85 Fed. Reg. 20,811, 20,813 (Apr. 15, 2020).

in the Paycheck Protection Program Flexibility Act.¹⁵ Under the amended terms, borrowers do not have to begin making payments until the date on which the determined forgiveness amount is remitted to the lender, as long as they apply for forgiveness within 10 months after the last day of their PPP loan's covered period. Congress made the modified deferral period applicable to both new and existing PPP loans.¹⁶ SBA updated its interim final rules in June 2020 implementing these revisions.¹⁷

Expansion of SBA approved lenders. Under the CARES Act, lenders already approved for the 7(a) program were automatically approved to make PPP loans on a delegated basis.¹⁸ The CARES Act also permitted SBA and Treasury to jointly extend delegated authority to additional lenders deemed to have the necessary qualifications to process, close, disburse, and service PPP loans.¹⁹ In the first interim final rule, SBA and Treasury announced that approving additional lenders was necessary to achieve program goals.²⁰ As a result, the agencies opened the program to applications from any qualified federally insured depository institution or credit union, Farm Credit System institution, and other depository or non-depository lender that met the criteria. These criteria included maintaining a formalized compliance program, applying the Bank Secrecy Act requirements of an equivalent federally regulated financial institution, and handling over a certain amount of business loans or other commercial financial receivables. According to SBA officials, of the approximately 5,500 lenders that made PPP loans, about 14 percent (about 800) were not previous SBA lenders.

Increased borrower eligibility. While the CARES Act established PPP as part of SBA's 7(a) lending program, it notably extended eligibility for PPP to borrowers typically outside of the 7(a) program's scope. These nontypical borrowers included certain nonprofit organizations, veterans'

¹⁵Pub. L. No. 116-142, § 3(c), 134 Stat. 641, 642-43 (2020).

¹⁶*Id.* at § 3(d).

¹⁷85 Fed. Reg. 36,308, 36,310 (June 16, 2020); 85 Fed. Reg. 38,304, 38,306 (June 26, 2020).

¹⁸Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 290 (2020) (codified at 15 U.S.C. § 636(a)(36)(F)(ii)-(iii)).

¹⁹*Id.*

²⁰85 Fed. Reg. 20,811, 20,815 (Apr. 15, 2020).

organizations, independent contractors, and self-employed individuals.²¹ In addition, the CARES Act waived the application of certain SBA affiliation rules for accommodation and food services sector borrowers with no more than 500 employees per physical location.²² SBA implemented this expanded eligibility in its first interim final rule, and released additional interim final rules further clarifying eligibility for borrowers such as faith-based organizations, certain utility cooperatives, seasonal employers, businesses owned by persons with criminal history records, and businesses owned by persons with delinquent student loan debt.²³ Subsequent legislation has further expanded the list of PPP-eligible borrowers and SBA has updated its interim final rules to acknowledge these changes.²⁴

PPP loans to underserved borrowers. The CARES Act included a Sense of the Senate statement that SBA should issue guidance to lenders and agents to ensure that the processing and disbursement of PPP loans prioritized small business concerns and entities in underserved and rural markets, including veterans and members of the military community, small business concerns owned and controlled by socially and economically disadvantaged individuals, and businesses in operation for less than 2 years.²⁵ In its first interim final rule, SBA stated that PPP was “first-come, first-served,” without making allowances for borrowers specified in the Sense of the Senate statement.²⁶ As we reported in September 2020, SBA did not ask for demographic information in the initial PPP loan application, and did not revise its

²¹Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 288-89 (2020) (codified as amended at 15 U.S.C. § 636(a)(36)(D)).

²²*d.* This waiver of affiliation rules allows eligible small businesses, such as certain restaurants and hotels, to receive a PPP loan even though their ownership or connection to larger brands usually would render them ineligible for 7(a) program assistance.

²³See e.g., 85 Fed. Reg. 20,811 (Apr. 15, 2020); 85 Fed. Reg. 21,747 (Apr. 20, 2020); 85 Fed. Reg. 23,450 (Apr. 28, 2020); 85 Fed. Reg. 23,917 (Apr. 30, 2020); 85 Fed. Reg. 27,287 (May 8, 2020); 85 Fed. Reg. 29,847 (May 19, 2020); 85 Fed. Reg. 30,835 (May 21, 2020); 85 Fed. Reg. 35,550 (June 8, 2020); 86 Fed. Reg. 13,149 (Mar. 8, 2021). See also 86 Fed. Reg. 3692 (Jan. 14, 2021); 86 Fed. Reg. 15,083 (Mar. 22, 2021).

²⁴Pub. L. No. 117-2, tit. V, § 5001, 135 Stat. 4, 81 (2021); 86 Fed. Reg. 3692 (Jan. 14, 2021); 86 Fed. Reg. 13,149 (Mar. 8, 2021); 86 Fed. Reg. 15,083 (Mar. 22, 2021).

²⁵Pub. L. No. 116-136, § 1102(a), 134 Stat. 281, 293 (2020) (codified at 15 U.S.C. § 636(a)(36)(P)(iv)).

²⁶85 Fed. Reg. 20,811, 20,813 (Apr. 15, 2020).

application to do so in response to a May 2020 SBA Office of Inspector General recommendation that it do so.²⁷ At that time, SBA officials stated that the agency did not revise the borrower application to collect such information in an effort to streamline the application process. However, SBA included an optional demographic information form as part of the PPP loan forgiveness application.

In the Paycheck Protection Program and Health Care Enhancement Act, Congress allocated a total of \$60 billion in additional PPP funding specifically for certain small depository institutions, credit unions, or community financial institutions to make PPP loans.²⁸ On May 28, 2020, SBA and Treasury further announced that \$10 billion in PPP funding would be set aside explicitly for community development financial institutions.²⁹

In June 2020, SBA released a letter asking lenders to “redouble” their efforts to assist eligible borrowers in underserved and disadvantaged communities.³⁰ Additionally, in January 2021, SBA released specific guidance on accessing capital for minority, underserved, veteran, and women-owned businesses.³¹ The Consolidated Appropriations Act, 2021, included a provision that all future PPP applications include a means by which the applicant may, at their discretion, submit demographic information including sex, race, ethnicity, and veteran status of the owner.³² SBA revised its PPP borrower application form in January 2021

²⁷GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, [GAO-20-701](#) (Washington, D.C.: Sept. 21, 2020); Small Business Administration, Office of Inspector General, *Small Business Administration’s Implementation of the Paycheck Protection Program Requirements*, Report No. 20-14 (Washington, D.C.: May 8, 2020).

²⁸Pub. L. No. 116-139, § 101(d), 134 Stat. 620, 621-22 (2020).

²⁹Small Business Administration, Press Release No. 20-42, *SBA and Treasury Department Announce \$10 Billion for CDFIs to Participate in the Paycheck Protection Program* (May 28, 2020), <https://www.sba.gov/article/2020/may/28/sba-treasury-department-announce-10-billion-cdfis-participate-paycheck-protection-program>.

³⁰Small Business Administration, *SBA Administrator Message to Lenders re: Underserved Communities* (June 15, 2020).

³¹Small Business Administration, *Guidance on Accessing Capital for Minority, Underserved, Veteran and Women-Owned Business Concerns* (Jan. 6, 2021).

³²Pub. L. No. 116-260, div. N, tit. III, § 309, 134 Stat. 1182, 2000 (2020).

to allow for the optional disclosure of demographic information, and it has included such a section in all subsequent revisions.

Appendix IV: Comparison of Paycheck Protection Program Processes with Guidance for Managing Credit Programs

We compared the Small Business Administration's (SBA) processes for managing elements of the Paycheck Protection Program (PPP) against government-wide guidance for the management and operation of federal credit programs in the Office of Management and Budget's (OMB) Circular A-129.¹ See appendix I for more information on our methodology.

We focused our comparison on consistency with four standards in the OMB guidance: applicant screening, loan documentation and collateral, managing lenders and servicers, and credit program management. For each standard, we assessed whether it was applicable to PPP, and if so, whether SBA's processes, as described in related rules, guidance, policies, and procedures, were consistent with the selected standard. In some instances, the provisions of the CARES Act or other legislation prevented full compliance with the standard, so we adjusted our ratings accordingly, assessing whether SBA processes were consistent with standards to the extent practicable given the limitations or waivers imposed in legislation.

We determined that SBA processes were consistent to the extent practicable with standards for applicant screening, consistent to the extent practicable with standards for loan documentation and collateral, partially consistent with standards for managing lenders and servicers, and partially consistent with standards for credit program management. Table 25 summarizes the results of our comparison.

¹Office of Management and Budget, *Policies for Federal Credit Programs and Non-Tax Receivables*, OMB Circular No. A-129 (Washington, D.C.: January 2013).

Appendix IV: Comparison of Paycheck Protection Program Processes with Guidance for Managing Credit Programs

Table 25: Consistency of Small Business Administration (SBA) Processes with Selected Office of Management and Budget (OMB) Standards

OMB Circular A-129 topic areas and description	Assessment	Standard	Observations
Applicant screening: Determining an applicant's eligibility and creditworthiness for a loan	Consistent to the extent practicable	Lender must determine the applicant's program eligibility, and applicants must certify and document their inability to obtain credit from private sources on reasonable terms and certify the accuracy of information in the application.	Lenders collect borrower certifications and support to determine eligibility.
			Borrower eligibility is primarily dependent on the borrower's business type, size, payroll, length of time in existence, and certification of economic necessity.
		The "credit elsewhere" test is waived by the CARES Act.	
		Lender should determine whether an applicant is delinquent on federal debt, suspend application processing for those who are delinquent, and continue application processing only when the debt is satisfactorily resolved.	Borrower application forms include a certification that the applicant is not delinquent on federal debt.
Loan documentation and collateral: Maintaining files containing key information used in underwriting, and collateral requirements	Consistent to the extent practicable	Where creditworthiness is a criterion for loan approval, lender must determine whether the applicant has the ability to repay the loan, considering credit reports and supplementary data sources.	When considering borrower eligibility, lenders do not need to determine whether the borrower has the ability to repay a Paycheck Protection Program (PPP) loan.
		Agency must obtain the taxpayer identification number of applicants.	Borrowers must provide a taxpayer identification number.
		Loan origination file should contain loan applications, credit bureau reports, credit analyses, loan contracts, and other documents necessary to conform to private sector standards for that type of loan.	SBA requires lenders to retain in the loan file the borrower application and supporting documentation. Permissible variation in eligible borrower characteristics and related supporting documents limits ability to specify precise contents of loan files.
		Agency should require property appraisals to be consistent with the Uniform Standards of Professional Appraisal Practice and generally be prepared by a licensed or certified appraiser.	The CARES Act states no personal guarantee or collateral are required for PPP loans.
		Agency should explicitly define the components of the loan-to-value ratio.	The CARES Act states no personal guarantee or collateral are required for PPP loans.
		Loan maturity period should be shorter than the estimated useful economic life of the collateral.	The CARES Act states no personal guarantee or collateral are required for PPP loans.
Lenders should be required to liquidate any real property collateral for a defaulted guaranteed loan before filing a claim.	The CARES Act states no personal guarantee or collateral are required for PPP loans.		

Appendix IV: Comparison of Paycheck Protection Program Processes with Guidance for Managing Credit Programs

OMB Circular A-129 topic areas and description	Assessment	Standard	Observations
Managing lenders and servicers: Standards for lender and servicer eligibility, monitoring, recertification, and reporting	Partially consistent	Agency should establish policies, procedures, and cost tracking systems for the acquisition, management, and disposal of real property.	The CARES Act states no personal guarantee or collateral are required for PPP loans.
		Agency should establish and publish in the <i>Federal Register</i> lender and servicer eligibility criteria, including requirements that the lender or servicer not be debarred or delinquent on government debt, qualification requirements for principal officers and staff, appropriate bonding or insurance, and financial and capital requirements for lenders not supervised by a federal financial institution regulator.	SBA interim final rules for PPP are published in the <i>Federal Register</i> and include lender and servicer eligibility criteria.
		Agency shall review and document a lender or servicer's eligibility for continued participation at least every 2 years.	SBA will include lenders with post-forgiveness portfolios of PPP loans in 2-year review cycles, and existing 7(a) lenders participating in PPP are reviewed via the normal 7(a) lender review process.
		Agency should establish specific procedures to decertify lenders, end servicing contracts, or take other appropriate action for not meeting compliance or eligibility standards.	SBA loan review procedures include an aggregate review process that may help identify lender noncompliance, but it has yet to be fully implemented. Lenders must comply with the applicable lender obligations set forth in SBA interim final rules, but will be held harmless for borrowers' failure to comply with program criteria and will not be subject to any enforcement action or penalty relating to loan origination or forgiveness of the PPP loan if the lender acts in good faith relating to the origination or forgiveness of the PPP loan and satisfies all other applicable federal, state, local, and other statutory or regulatory requirements.
		Agency should enter into written agreements with lenders and servicers that include participation requirements and performance standards.	The lender application form includes program rules and a certification from lenders that they will abide by them.
		Agency should ensure through the claims review process that lenders have met performance standards and should reduce claim amounts or reject claims for nonperformance.	SBA is developing a PPP-specific process for guarantee purchase requests.
		Agency should collect and maintain data from lenders and servicers to monitor the health of its credit portfolio and track and evaluate lender and servicer performance.	Lenders must report the status of loans via the monthly 1502 reporting process.

Appendix IV: Comparison of Paycheck Protection Program Processes with Guidance for Managing Credit Programs

OMB Circular A-129 topic areas and description	Assessment	Standard	Observations
		Agency should conduct on-site lender and servicer reviews—prioritizing such reviews based on performance and exposure—and summarize review findings in written reports with recommended corrective actions.	SBA will include lenders with post-forgiveness portfolios of PPP loans in 2-year review cycles, and existing 7(a) lenders participating in PPP are reviewed via the normal 7(a) lender review process.
		Agency should establish penalties for serious and frequent offenses.	Lenders must comply with the applicable lender obligations set forth in SBA interim final rules, but will be held harmless for borrowers' failure to comply with program criteria and will not be subject to any enforcement action or penalty relating to loan origination or forgiveness of the PPP loan if the lender acts in good faith relating to the origination or forgiveness of the PPP loan and satisfies all other applicable federal, state, local, and other statutory or regulatory requirements. If found guilty of fraud in connection with a PPP loan, the lender is required to repay its processing fee for the loan to SBA, and the loan is not eligible for a guarantee.
Credit program management: Standards addressing various aspects of credit program management, including lines of authority and communication, performance and risk indicators, and reporting mechanisms	Partially consistent	Agency should establish and periodically review appropriate performance and other indicators for the program and establish risk thresholds to balance policy goals with risks and costs to the taxpayer. Agencies should separate critical program functions, as appropriate; retain inherently governmental functions and establish agreements to ensure appropriate contractor oversight when outsourcing functions; and establish and document a policy for communications with credit counterparties and other stakeholders for periods when an agency decision on credit support is pending. High-level credit performance data should be supplied to the appropriate senior-level official with primary responsibility for the program on at least a quarterly basis.	SBA collects and reviews performance data, such as the number and dollar amount of loans approved and forgiven. SBA has a process for communicating with lenders while decisions concerning credit support are pending, but has not provided timely responses to some lenders. SBA's loan review plan includes daily, weekly, and other periodic reporting of collected relevant data to SBA leadership.

Source: GAO analysis of OMB and SBA documents. | GAO-21-577

Appendix V: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

July 12, 2021

Bill Shear
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) Draft Report titled, *"Paycheck Protection Program: SBA Added Program Safeguards, but Additional Actions are Needed (GAO-21-577)"*.

The SBA, together with the Department of the Treasury, led the execution of the Paycheck Protection Program. SBA also relied on delegated lenders for the approval and disbursement of PPP loans. When the program stopped accepting new applications at the end of May 2021, SBA, through its lending partners, had approved 11.8 million PPP loans for nearly \$800 billion.

In the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), SBA was mandated by Congress to swiftly disburse funds to millions of struggling small businesses. In order to implement this mandate, speed of execution was a top priority. As a result, when the Paycheck Protection Program launched in April 2020, SBA's approach for PPP loans was intentionally developed with more fraud and eligibility controls implemented post-origination (at the loan forgiveness and review stage) rather than up-front. The post-origination loan review process developed by SBA and Treasury combined automated screenings of all 2020 PPP loans and manual reviews of selected loans to test for compliance with program requirements. SBA also applied machine learning to the results of the automated screening process to focus loan review resources on the areas of greatest risk of fraud or ineligibility.

When the program was reauthorized under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) in late December 2020, SBA implemented additional up-front controls to help reduce the likelihood of fraud or ineligibility within the program. PPP loans originated in 2021, regardless of whether they were first draw loans or second draw loans, were screened at origination for the authenticity and accuracy of information provided by the PPP loan applicant. The SBA did not issue a loan number and the lender did not disburse the loan funds unless the loan cleared this automated screening process. Additionally, if a borrower's 2020 first draw loan had remaining unresolved alerts and/or flags and the borrower submitted an application for a 2021 second draw loan, the second draw application was put on hold until the 2020 first draw loan alerts and/or flags were resolved.

**Appendix V: Comments from the Small
Business Administration**

The Paycheck Protection Program was a massive initiative requiring unprecedented execution speed and nimbleness in order to rescue small businesses and nonprofit organizations from a crippling pandemic. When considering the mandated actions taken by the SBA and its lending partners, the SBA believes that substantial progress has been made towards preserving the futures of millions of small businesses and nonprofits. The additional controls that have been put in place in 2021 have also helped prevent additional fraud. SBA continues to aggressively identify fraud within the program and works with SBA's Office of Inspector General and the Department of Justice on actions related to suspicious loans.

In the Draft Report, GAO is proposing four recommendations for SBA, Recommendations 1-4. The four recommendations are listed below followed by SBA's responses.

Recommendation 1: *The SBA Administrator should establish timeframes for finalizing and issuing a PPP-specific loan guarantee purchase process, including allowing lenders to claim the SBA guarantee when they have evidence the business ceased operations or declared bankruptcy.*

SBA agrees with this recommendation. SBA will continue to work on finalizing its guidance, defining the PPP-specific loan guarantee purchase process, including allowing lenders to claim the SBA guarantee when they have evidence the business ceased operations or declared bankruptcy.

Recommendation 2: *The SBA Administrator should implement the advance purchase provision in the CARES Act or report to Congress why the agency has not complied, including seeking statutory flexibilities or exceptions believed appropriate.*

SBA partially agrees with this recommendation. SBA will not implement this provision given the successful launching of the Federal Reserve's PPP Liquidity Facility which provides a better vehicle for lender liquidity. SBA will notify Congress of its request to seek statutory flexibility on this matter, or will request that Congress repeal the advance purchase requirement.

Recommendation 3: *The SBA Administrator should establish timeframes for finalizing and issuing its procedures for higher authority reviews conducted by supervisors and reviews conducted by a committee of senior managers.*

SBA agrees with this recommendation and will continue to work on finalizing its procedures for higher authority reviews of PPP loans.

Recommendation 4: *The SBA Administrator should develop and implement a process to ensure it responds in a timely manner to PPP lender inquiries on loan reviews.*

SBA agrees with this recommendation and will provide procedures to GAO.

We appreciate the opportunity to comment on this Draft Report and recommendations, and for taking our views into consideration.

**Appendix V: Comments from the Small
Business Administration**

Sincerely,

/s/ Patrick Kelley

Patrick Kelley

Associate Administrator

Office of Capital Access

U.S. Small Business Administration

Text of Appendix V: Comments from the Small Business Administration

July 12, 2021

Bill Shear Director

Financial Markets and Community Investment

U.S. Government Accountability Office Washington, D.C. 20548

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Sincerely,

Patrick Kelley

Associate Administrator Office of Capital Access

U.S. Small Business Administration

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Paige Smith (Assistant Director), Daniel Newman (Analyst in Charge), James Ashley, Vida Awumey, Carl Barden, Marcia Carlsen, Irina Carnevale, Jacob Fender, Dan Flavin, Tonita Gillich, Chir-Jen Huang, Christopher Klemmer, Jill Lacey, Ying Long, Bryan Prince, Rhonda Rose, Christopher Ross, Paras Sharma, Rebecca Shea, Jena Sinkfield, Shenandoah Sowash, Tyler Spunaugle, and Ariel Vega made key contributions to this report.

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