

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

December 14, 2021

The Honorable Hannibal "Mike" Ware
Inspector General
United States Small Business Administration
409 3rd Street, SW, Suite 7150
Washington, DC 20416

Dear Inspector General Ware:

I write to inquire about the historical operation and administration of direct to the borrower lending programs at the Small Business Administration (SBA). Now more than ever, the nation's small businesses require an environment that allow them to independently grow, expand, and create jobs across the nation. It must not be ignored nor forgotten that prior to COVID-19, small businesses were reporting historic levels of optimism and confidence. To ensure our nation recovers from the pandemic and its associated state and local shutdown orders, Members of Congress must focus on pro-growth policies that are efficient and protect American taxpayer dollars.

As you know, the SBA acts a direct lender under its Disaster Loan Programs and has in the past offered direct lending options through its 7(a) Loan Program. In addition to these existing programs, the SBA's Economic Injury Disaster Loan (EIDL) program was activated at the beginning of the pandemic emergency period. These programs, whereby the government determines which private small businesses receive a loan and which private small businesses do not, have a track record at the SBA.

In fact, you published a report on April 3, 2020 that focused on lessons learned from previous audits of the EIDL program.¹ Shortly after the COVID EIDL program commenced, fraud developed and communication issues became widespread. This report proved to be prescient. As the program underwhelmingly disbursed more and more dollars, your own subsequent reporting identified and thoroughly examined numerous alarming issues. For example, you found approximately \$80 billion in potentially fraudulent activity in the COVID relief program that was delivered to small businesses directly through the SBA,² over 800,000 EIDL applications

¹ OFFICE OF INSPECTOR GENERAL, U.S. SMALL BUS. ADMIN., WHITE PAPER: RISK AWARENESS AND LESSONS LEARNED FROM AUDITS AND INSPECTIONS OF ECONOMIC INJURY DISASTER LOANS AND OTHER DISASTER LENDING (April 3, 2020).

² OFFICE OF INSPECTOR GENERAL, U.S. SMALL BUS. ADMIN., INSPECTION OF SMALL BUSINESS ADMINISTRATION'S INITIAL DISASTER ASSISTANCE RESPONSE TO THE CORONAVIRUS PANDEMIC (Oct. 28, 2020).

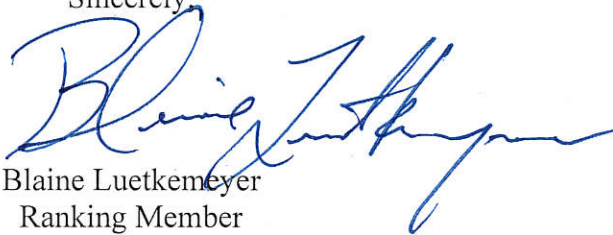
that were flagged for identity theft concerns,³ and issues that resulted in small businesses waiting on average 49 days to receive funding during the early months of the emergency program's operation.⁴ These are not characteristics that warrant an expansion of government lending. While these reports solely focus on COVID EIDL loans and its associated grants, my concerns are not limited to just this program, but rather to the SBA's overall inability to act as a direct lender, no matter the program.

Given recent proposals to expand SBA's direct lending ability within the 7(a) Loan Program, I request your opinion on how the SBA has performed these tasks as a direct government lender in the past. In your response, please comment on the SBA's performance in the following areas when it has been the sole lender to small businesses:

- Customer service or the ability to answer questions and concerns posed by small businesses about their application, loan, etc.;
- The timeline of how quickly the SBA delivered funds to small businesses;
- The performance of loans, in addition to default rates, purchase rates, and subsidy rates of programs where the SBA made direct loans to small businesses; and
- The level of fraudulent activity.

The integrity of these programs should be protected and safeguarded to ensure they are available for small businesses for years to come. Should you have any questions about this request, please contact David Planning, the Republican Staff Director for the Committee on Small Business at 202-225-5821.

Sincerely,



Blaine Luetkemeyer
Ranking Member
Committee on Small Business

³ OFFICE OF INSPECTOR GENERAL, U.S. SMALL BUS. ADMIN., SBA'S HANDLING OF IDENTITY THEFT IN THE COVID-19 ECONOMIC INJURY DISASTER LOAN PROGRAM (May 6, 2021).

⁴ *Supra* note 2.