

United States Senate

WASHINGTON, DC 20510

March 14, 2023

The Honorable Isabella Guzman
Administrator
U.S. Small Business Administration
409 3rd Street, SW
Washington, D.C. 20416

Dear Administrator Guzman,

We write today to express concern about the Small Business Administration's (SBA) November 7, 2022, Proposed Rule on "Small Business Lending Company (SBLC) Moratorium Rescission and Removal of the Requirement for a Loan Authorization." This proposed rule, in part, would lift the moratorium on licensing new SBLCs to participate in the SBA's 7(a) Loan Program, effectively allowing financial technology (fintech) companies to participate.

The SBA's lending programs, including the 7(a) Loan Program, provide critical support to small businesses that lack adequate access to capital. The 7(a) Loan Program, the SBA's primary lending program, provided more than 47,000 loans totaling more than \$25 billion in Fiscal Year 2022. However, despite record lending, we know that barriers to capital still exist, especially for minority- and women-owned businesses. Financial inequities were exacerbated during the COVID-19 pandemic, making it even more difficult for these businesses to succeed. We applaud the work the SBA has done to level the playing field for small businesses and address the credit gap for minority- and women-owned small business.

While we strongly support the SBA's goals of expanding credit opportunities to better serve small businesses, as well as reaching more underserved communities to address financial inequities, we are concerned that the proposed changes to the 7(a) Loan Program may undermine the integrity of this critical program. Before removing the long-standing SBLC moratorium, we want to ensure that the SBA has addressed the issues of fraud and abuse that have been uncovered with regard to the Paycheck Protection Program (PPP).

The SBA's Office of Inspector General identified more than 70,000 potentially fraudulent PPP loans, totaling more than \$4.6 billion. Reports show that fintechs, which are not subject to the same federal regulations as traditional banks and credit unions, were responsible for a disproportionate amount of PPP fraud compared to traditional lenders. The House Select Subcommittee on the Coronavirus Crisis found that, "many fintechs, while promising to help disburse billions of Paycheck Protection Program dollars to struggling small businesses efficiently and expeditiously, refused to take adequate steps to detect and prevent fraud despite their clear responsibility to safeguard taxpayer funds."¹ The evidence is clear—the negligence of fintechs catered to individuals seeking to take advantage of the PPP, wasting taxpayer dollars

¹ "Select Subcommittee Report Reveals Fintechs Facilitated PPP Fraud," House Select Subcommittee on the Coronavirus Crisis, December 27, 2022. <https://coronavirus.house.gov/news/press-releases/clyburn-fintech-fraud-ppp-doj-sba>.

and taking money away from those who truly needed it during the most difficult moments of the pandemic.

We acknowledge that fintechs can play a role in facilitating access to capital in underserved communities, but it cannot be overlooked that these companies also facilitated massive fraud. In Illinois alone, millions of dollars were allegedly provided to individuals who filed fraudulent PPP applications. According to a recent Chicago Sun-Times article, one Chicago address, for the Breakthrough Men’s Center, was utilized 69 times in fraudulent PPP applications.² Similarly, a Chicago Salvation Army location was used as the address for 36 fraudulent applications, and the address of the Westside Health Authority was listed on 33 fraudulent applications. This fraud went completely unchecked by lenders, particularly the fintechs that approved the loans.

Before the SBA allows additional lenders, specifically fintechs, to participate in the 7(a) Loan Program, the SBA must have sufficient safeguards in place to ensure fintechs and other lenders are not facilitating excessive rates of fraud and abuse. Lenders that wish to participate in the prestigious 7(a) Loan Program should meet a high standard of evaluation and demonstrate rigorous underwriting and anti-fraud controls. It is critical that the SBA has the ability and capacity to appropriately vet and monitor lenders, and not jeopardize the historic success of this vital program.

Thank you for your attention to this important issue. We look forward to continuing to work with you to expand access to capital and better serve our nation’s small businesses.

Sincerely,



Richard J. Durbin
United States Senator



Tammy Duckworth
United States Senator

² Main, Frank, and Lauren FitzPatrick. “PPP Fraud Signs: Clusters of Pandemic Relief Loans in Chicago Went to the Same Addresses, Including a Homeless Shelter - Chicago Sun-Times.” Chicago Sun-Times, January 27, 2023. <https://chicago.suntimes.com/2023/1/27/23570903/ppp-paycheck-protection-program-covid-relief-fraud-homeless-gang-members-cps-employees-fintech>.