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SELECT SUBCOMMITTEE ON THE CORONAVIRUS CRISIS
2157 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6143
Phone (202) 225–4400
https://coronavirus.house.gov

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December 1, 2022

The Honorable Hannibal Ware
Inspector General
Small Business Administration
409 3rd Street, S.W., Suite 7150
Washington, DC 20416

Dear Inspector General Ware:

The Select Subcommittee on the Coronavirus Crisis has been investigating waste, fraud, and abuse in the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA).[1] This investigation has found that certain financial technology (fintech) companies involved in processing PPP loans may have contributed to significant amounts of fraud in the $800 billion program. Some fintech companies that facilitated millions of loans took shortcuts on fraud controls and used the program to enrich themselves and their owners, while certain lenders partnering with these fintechs put taxpayer funds at risk by delegating their compliance responsibilities to fintechs without conducting adequate oversight. The Select Subcommittee's findings are described in full in the enclosed staff report, which is being released today.

Although the Select Subcommittee's investigation focused on four fintech companies—Blueacorn, Womply, BlueVine, and Kabbage—which processed large numbers of PPP loans, the findings revive broader concerns about SBA's system for overseeing SBA lenders and the role of underregulated companies in SBA programs. I am therefore writing to recommend that the SBA Office of Inspector General (OIG) examine risks posed by the involvement of unregulated fintechs in SBA programs, as well as evidence concerning possible instances of fraud or unethical behavior uncovered by the Select Subcommittee. Specifically, the SBA OIG should:

## I. Conduct a Comprehensive Review of Waste, Fraud, and Abuse by PPP Lenders and Their Agents

The Select Subcommittee's investigation determined that certain lenders and service providers implemented ineffective eligibility verification and fraud prevention programs while collecting billions of dollars in taxpayer-funded loan fees. It also found that some fintech principals may have abused their position in the PPP to charge unauthorized fees and to obtain

[1] Select Subcommittee on the Coronavirus Crisis, *Press Release: Select Subcommittee Launches Investigation into Role of FinTech Industry in PPP Fraud* (May 28, 2021) (online at https://coronavirus.house.gov/news/press-releases/select-subcommittee-launches-investigation-role-fintech-industry-ppp-fraud).

PPP loans for themselves, their businesses, and their family members. Based on these findings, I recommend that OIG conduct a comprehensive review for waste, fraud, and abuse by PPP lenders and their service providers, including fintechs, and refer any potential criminal violations to appropriate law enforcement agencies, and any instances of program noncompliance or ineligible loans to SBA for further assessment or demand for repayment.

## II. Assess Systemic Risks Posed by Fintechs and Unregulated Entities in SBA Programs

OIG should consider revisiting and updating its 2015 audit, summarized in Report Number 15-06 (*Improvement is Needed in SBA's Oversight of Lender Service Providers*),[2] to examine systemic risks posed by (1) the involvement of fintechs and similarly new or underregulated entities in SBA programs, particularly when lenders delegate their responsibilities to mitigate fraud against taxpayers; and (2) the framework for SBA lenders' participation in the 7(a) program, which currently permits SBA lenders to delegate major compliance-related responsibilities to third parties (including, but not limited to, Lending Service Providers (LSPs) and agents) that are not directly overseen by SBA. The review should include a reassessment of the measures SBA has introduced since 2015 to oversee third party service providers that assist SBA lenders in executing their programmatic responsibilities. The enclosed report includes multiple instances of lenders delegating their fraud prevention and eligibility verification controls to third parties not overseen by SBA, but apparently failing to "exercise[] day-to-day responsibility for evaluating, processing, closing, disbursing, servicing, liquidating, and litigating its SBA portfolio," as contemplated by SBA's Standard Operating Procedures.[3] The Select Subcommittee's findings also suggest that SBA's oversight mechanisms—including tracking LSPs, approving LSP contracts submitted to SBA, and responding to referrals of potential violation of SBA policy by LSPs and lenders—may be insufficient to protect taxpayers, particularly as applied to third-party service providers facilitating significant numbers of loans and those responsible for fraud-related controls. OIG should provide further recommendations regarding SBA's processes for oversight of third-party service providers (or lenders' efforts to supervise them) as warranted and publish its conclusions and recommendations to inform potential future programs or SBA rules.

## III. Assess the Precise Amount of Fraud Committed Against the PPP

I also recommend that OIG continue its work to assess the precise extent of fraud committed against the PPP program, and publish reports of new estimates.[4] The Select

[2] Small Business Administration, Office of Inspector General, *Improvement Is Needed in SBA's Oversight of Lender Service Providers* (Mar. 12, 2015) (Rept. No. 15-06) (online at https://oversight.gov/sites/default/files/oig-reports/OIG_Report_15-06_Lender_Service_Providers.pdf).

[3] Small Business Administration, Office of Capital Access, *Lender and Development Company Loan Programs* (Oct. 1, 2020) (SOP 50 10 6) (online at https://sba.gov/document/sop-50-10-lender-development-company-loan-programs-0).

[4] Small Business Administration, Office of Inspector General, *SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans* (May 26, 2022) (Rept. No. 22-13) (online at www.sba.gov/sites/default/files/2022-05/SBA%20OIG%20Report%2022-13.pdf) ("We are working to identify the full extent of PPP fraud.").

Subcommittee's findings make clear that, while SBA OIG previously identified billions of dollars of PPP funds approved and disbursed to ineligible applicants, taxpayers still do not know the full extent of fraud committed against the PPP, nor the weak spots in the program that led to high rates of fraud. Confirming the full scope and nature of such fraud and its causes is vital to determining best practices for ongoing and future SBA programs, and to reduce future emergency programs' vulnerability to financial crime. As OIG uncovers additional instances of fraud, it should continue to refer those cases to appropriate law enforcement officials for prosecution and/or civil actions to recover taxpayer funds.

## IV. Investigate Instances of Potential Fraud Connected to PPP Lenders or Agents

Finally, in addition to its broader findings, the Select Subcommittee has discovered information that suggests that individuals responsible for verifying the eligibility of PPP loan applicants may have themselves violated PPP rules. Specifically, the Select Subcommittee has obtained information indicating that two of the founders of Blueacorn—a top lender service provider in the PPP—may have themselves applied for potentially fraudulent PPP loans. The Select Subcommittee has also obtained information indicating that the owners of an entity that was engaged to provide compliance consultant and eligibility verification services to Blueacorn have also applied for potentially fraudulent PPP loans.

### *A. Blueacorn's Founders May Have Engaged in PPP Loan Fraud*

The Select Subcommittee's investigation has uncovered evidence that Blueacorn's co-founders Nathan Reis and Stephanie Hockridge may have made false statements and provided inconsistent information in their applications to receive PPP loans. Reis and Hockridge received ten PPP loans totaling $283,715, with seven of those loans, totaling $180,087, coming from the lending partners of their company, Blueacorn.[5] After reviewing the files associated with the Reis and Hockridge loans, the Select Subcommittee identified possible red flags in several of the PPP applications. For example, Reis received two PPP loans, respectively funded by Bank of America and Blueacorn partner Capital Plus. In both loan applications, Reis claimed that the entirety of his income came from consulting services performed for his wife's sole member limited liability company, Body Politix LLC. Reis provided both lenders with payment invoices sent to Body Politix LLC and Copy B of a 2019 Form 1099-MISC reflecting that Body Politix LLC paid Reis $96,000. These documents were supplied to the SBA as evidence of Reis's financial statements in order to obtain his loans. Yet Body Politix LLC's own PPP loan application failed to corroborate the claims on Reis's application. Body Politix LLC's Schedule C does not reflect Reis's claimed monthly payment or the $96,000 in Reis claimed to have been paid in his 2019 Form 1099-Misc.

Reis also claimed in both applications that he owned no other businesses.[6] This claim is contradicted by other PPP applications and public records indicating that Reis and Hockridge had ownership stakes in Juuice, Inc., Juuice, LLC, Body Politix, and Blueacorn—three of which

[5] Select Subcommittee on the Coronavirus Crisis, *"We Are Not the Fraud Police": How Fintechs Facilitated Fraud in the Paycheck Protection Program* (Dec. 1, 2022) (Section III (B)(10)).

[6] *Id.*

received PPP loans. The failure to disclose ownership in other companies—as required by SBA—may have been an effort to prevent any additional SBA scrutiny of the multiple streams of PPP funding that they received. Reis also claimed in one application to be both African-American and a military veteran, neither of which appear to be true.

These inconsistencies suggest that Reis and Hockridge—who were entrusted by lenders to verify applicant eligibility and prevent fraud in a multibillion-dollar federal relief program—may have made inaccurate representations to financial institutions on their own PPP loan applications. The OIG should investigate whether Reis and Hockridge made false representations in PPP applications, whether these may constitute fraud against the PPP, and refer the loans to law enforcement authorities if warranted.

### *B. Blueacorn Executives Appeared to Have Impermissibly Charged Fees to Certain PPP Borrowers*

Although PPP guidance prohibits loan agents from collecting fees directly from borrowers or being paid out of PPP loan proceeds, the Select Subcommittee obtained evidence indicating that Hockridge may have also violated program rules by directly charging fees to borrowers.[7] According to Blueacorn's compliance consultant, Hockridge attempted to charge multiple PPP applicants a fee of between 5 and 10 percent of the loan value for PPP application preparation and processing services, in violation of SBA rules.[8]

### *C. The Owners of Blueacorn's Compliance Consultant May Have Also Engaged in PPP Loan Fraud*

The Select Subcommittee's investigation has uncovered similar conduct by the owners of Elev8 Advisors, a compliance consultant engaged by Blueacorn to verify PPP loan applicant eligibility. Specifically, Elev8 Advisors's owners—Adam Spencer and Kristen Spencer—may have made false statements and provided inconsistent information in their applications to receive PPP loans. Additionally, an individual who spoke with the Select Subcommittee on the condition of anonymity stated that the Spencers directed at least one family member to provide false information in order to obtain a PPP loan from Blueacorn.

The Spencers, their family members, and companies that they own or control received 11 PPP loans totaling $217,205. Eight of those loans, totaling $138,338, were issued by Blueacorn lending partners in 2021—after Elev8 started working with Blueacorn on the PPP.[9] Files associated with these loans raise serious questions about several of the Spencers' and their family members' applications. For example, Kristen Spencer submitted a 2020 Schedule C as part of Sweet P Designs PPP application to Capital Plus, claiming that the online clothing store—which

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[7] Select Subcommittee on the Coronavirus Crisis, *"We Are Not the Fraud Police": How Fintechs Facilitated Fraud in the Paycheck Protection Program* (Dec. 1, 2022) (Section III (B)(10)).

[8] 13 C.F.R. § 120 (2020); Small Business Administration, *First Draw PPP Loan* (online at www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program/first-draw-ppp-loan) (accessed Nov. 17, 2022) ("Neither the government nor lenders will charge small businesses any fees").

[9] Select Subcommittee on the Coronavirus Crisis, *"We Are Not the Fraud Police": How Fintechs Facilitated Fraud in the Paycheck Protection Program* (Dec. 1, 2022) (Section III (B)(11)).

has had no discoverable online presence since March of 2019—had gross sales of $109,983 in 2020 but expenses and costs of goods sold of only $16,115.[10] The information provided in this application suggested an 80 percent profit margin—dramatically higher than a typical online retailer.[11] The bank statements provided as part of this application do not show transactions corroborating the claimed revenue. Many of the PPP applications submitted for members of the Spencers' extended family contain similar inconsistencies. OIG should investigate these inconsistencies and refer them to law enforcement as appropriate.

PPP loans granted to Reis, Hockridge, and the Spencers pose unique concerns. The fact that these loans were sought by—and granted to—individuals who had assumed responsibility for identifying fraud in PPP applications makes them ripe for OIG review, and calls into further question other loan applications facilitated by Blueacorn and Elev8.

If you have any questions regarding this letter, please contact Select Subcommittee staff at (202) 225-4400. Thank you for your assistance in this matter.

Sincerely,

James E. Clyburn
Chairman

Enclosure

cc: The Honorable Steve Scalise, Ranking Member

[10] Select Subcommittee on the Coronavirus Crisis, *"We Are Not the Fraud Police": How Fintechs Facilitated Fraud in the Paycheck Protection Program* (Dec. 1, 2022) (Section III (B)(11)).

[11] *See* New York University, Stern School of Business, *Margins by Sector (US)* (online at https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/margin.html) (accessed on October 17, 2022).