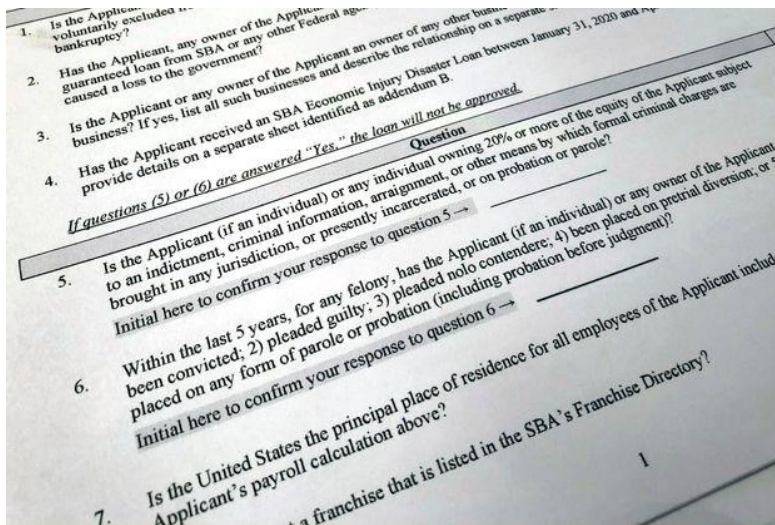


SBA Veered From Guidelines on Small-Business Loans, Report Says

Inspector general says congressional mandates for coronavirus relief loans weren't followed



The report said that one guideline not observed prioritized rural, women and minority borrowers. Above, a portion of a Small Business Administration Paycheck Protection Program Borrower Application Form.

PHOTO: /ASSOCIATED PRESS

By

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WASHINGTON—The Small Business Administration didn't follow several congressional mandates in implementing its huge loan program designed to keep businesses afloat during the coronavirus pandemic, including failing to issue guidance to prioritize underserved communities, the agency's inspector general said in a report Friday.

The report focuses on the Paycheck Protection Program—part of [a \\$2 trillion aid package](#) that became law in March—and how well the agency adhered to the law's provisions.

The report noted that Congress required the SBA to give guidance to lenders about underserved and rural markets, but the agency failed to do so. As a result, borrowers “including rural, minority and women-owned businesses may not have received the loans as intended,” the report said.

It also found the SBA issued rules that required borrowers to use 75% of the funding on payroll costs to receive full forgiveness of their loan, even though the Cares Act passed by Congress didn't mandate any specific amount be dedicated for payroll expenses.

Many small businesses objected to this measure. Owners of restaurants, hair salons and other businesses who have been forced to close say they needed the money more for overhead costs, including rent.

The SBA declined to comment on the report's findings. But the report itself included the SBA's response to the provision that 75% of Paycheck Protection Program loans go toward payroll; the agency said it did so "in light of the act's overarching focus on keeping workers paid and employed."

The inspector general issued the report in response to a written inquiry from Sens. Chuck Schumer (D., N.Y.), Ben Cardin (D., Md.) and Sherrod Brown (D., Ohio) about the Paycheck Protection Program, which has been the centerpiece of the federal government's small-business relief efforts. It offers loans to small businesses to cover payroll and other overhead expenses for roughly two months.

In a statement, Mr. Schumer said the report "makes clear that the Trump administration must immediately fix the Paycheck Protection Program to help the truly small businesses that have so far not received the help they need."

The inspector general's report also found that the SBA didn't follow the bill's mandates on issuing guidance on loan deferments and registering program loans, but that it mostly complied with the Cares Act's provisions.

The report recommended several steps the agency can take to better align PPP with the law, including evaluating whether the rule requiring 75% of the loan to go to payroll should be reconsidered.

It also recommended the agency provide guidance requiring lenders to prioritize underserved borrowers and to revise the program's application so that it can collect optional demographic information.

PPP launched in early April with an initial \$350 billion in funding that was soon depleted amid overwhelming demand. Congress restarted the program with a \$310 billion replenishment in mid-April.

Demand for [the second round hasn't been as brisk](#), with lenders and small-business advocates pointing to several factors including concerns by business owners that they won't meet the conditions needed to have the loans forgiven.

Lawmakers' growing interest in oversight for the program stems in part from concerns that smaller businesses initially had trouble accessing the loans after reports that some large, publicly traded companies received funds.

Although several of the firms have since [returned the money amid public backlash](#), Democrats on a House subcommittee tasked with oversight of the federal government's coronavirus aid programs on Friday sent a letter to five public corporations asking them to send back the loan funds.

One of the companies, [MiMedx Group](#) Inc., said it would return the money. The other companies— [EVO Transportation & Energy Services](#) Inc., [Gulf Island Fabrication](#) Inc., [Quantum](#) Corp., and [Universal Stainless & Alloy Products](#) Inc. —didn't immediately return requests for comment.

Lawmakers have also urged the SBA to be more transparent about a separate agency program that provides disaster loans to small businesses affected by the coronavirus pandemic.

Both Republican and Democratic lawmakers have repeatedly sent letters to the agency's administrator, Jovita Carranza, asking that she address issues such as reports that some lenders favored existing customers when processing PPP applications and complaints from businesses that say they have been unable to access the disaster loan program.

A letter sent this week to Ms. Carranza from nearly 100 lawmakers in the House regarding the disaster loans said "many of our constituents who applied for this program have yet to hear about the status of their application. In fact, many small businesses have been without meaningful information from the SBA for weeks."

—*Inti Pacheco contributed to this article.*