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Report: Fintechs fueled PPP fraud, stricter oversight needed

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Paycheck Protection Program fraud disproportionately originated from fintechs due to executive greed and lax outside oversight, according to a staff report from the [Senate Select Subcommittee on the Coronavirus Crisis](#).

The subcommittee urged the Small Business Administration to review whether

fintechs should be allowed to participate in future emergency public lending programs.

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The report, released Dec. 1, was based on more than 83,000 pages of internal documents from both fintechs and their prominent PPP lending partners. In May 2021, the subcommittee launched the investigation into fintechs Kabbage, Inc., and Bluevine along with partner banks Cross River Bank, Fort Lee, N.J., and Celtic Bank, Salt Lake City. The investigation was expanded six months later to include fintech startups Blueacorn PPP, LLC, and Womply, Inc.

The findings followed a [University of Texas report](#) which found PPP loans made by fintechs to be “highly suspicious” at nearly five times the rate of loans from traditional lenders. The UT report found that \$76 billion of the \$800 billion allocated through PPP could have been improperly gained.

The subcommittee report criticized fintech lenders including Capital Plus and Harvest for what it deemed as having minimal oversight over their lending to Womply and Blueacorn. Blueacorn, which received more than \$1 billion in taxpayer funding processing fees during the pandemic, allegedly invested only minimally to prevent fraud and verify applicant eligibility. The company reportedly relied on third-party companies and contractors to process PPP loan applications and gave less scrutiny to high-dollar loans.

“Multiple PPP lenders admitted to having no formal program to monitor their fintech partners or to detect fraud in the PPP loans that they submitted,” the subcommittee stated. “The lenders investigated told the Select Subcommittee that they largely relied on their fintech partners to perform fraud prevention and eligibility verification.”

Blueacorn Founders Nate Reis and his wife Stephanie Hockridge Reis arranged PPP loans for themselves through their fintech, according to the subcommittee. In one loan application, Reis allegedly falsely claimed to be an African American and a veteran. “In addition to likely taking over \$120 million in taxpayer-funded PPP processing fees as personal profit, [Reis] and [Hockridge] received nearly \$300,000 in PPP loans, some of which were facilitated by their own company,” the report stated.

billion in net revenue in 2021 but allegedly still received more than \$5 million in PPP loans for itself, money which the SBA later deemed ineligible for the company to have.

In response to the report, [the SBA](#) suspended Blueacorn and Womply from working with the agency. The SBA is investigating Benworth, Capital Plus, Celtic Bank, Customers Bank, Cross River Bank, Fountainhead, Harvest and Prestamos for their alleged roles in the fraud.

In a statement following the report's release, the Consumer Bankers Association called on the SBA to cancel its proposal to extend its main 7(a) small business lending program to fintechs and nonbanks.

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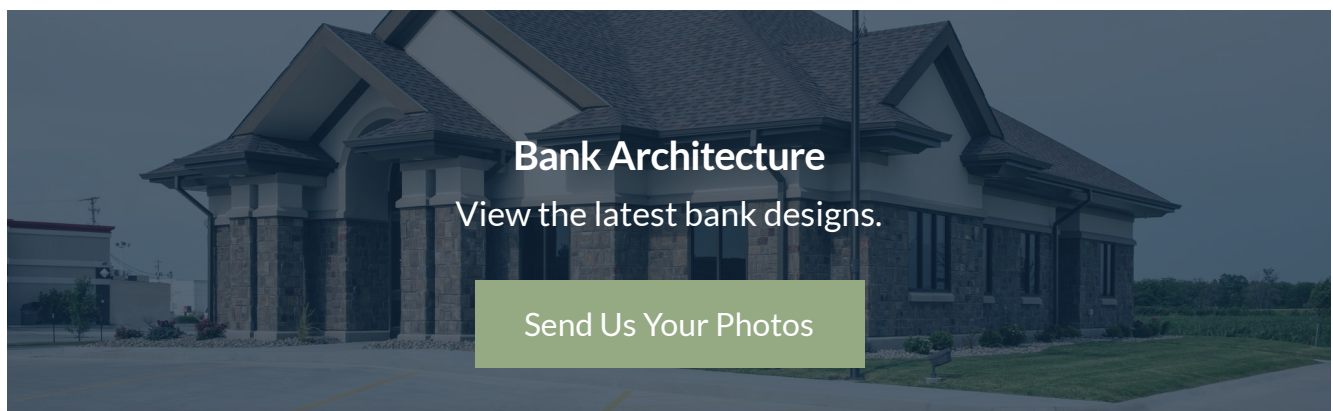
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