

Select Subcommittee Report Details Trump Administration's Failure To Prevent Fraud In Economic Injury Disaster Loan Program

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Report also details Trump Administration decision to award windfall \$750 million no-bid contract to company that assigned just six employees to processing EIDL applications

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Washington, D.C. (June 14, 2022) – Today, in advance of a [hearing](#) on fraud in federal pandemic relief programs, the Select Subcommittee on the Coronavirus Crisis, chaired by Rep. James E. Clyburn, released a new [staff report](#) on the Trump Administration's mismanagement of the Small Business Administration's (SBA) COVID-19 Economic Injury Disaster Loan (EIDL) program. The report demonstrates how the Trump Administration failed to implement basic safeguards to prevent fraud, even directing loan reviewers to approve applications with serious fraud alerts without taking any steps to ensure that the applications were legitimate.

The report further details how the Trump Administration failed to ensure taxpayers paid a reasonable price for EIDL support services in awarding a \$750 million no-bid contract, the largest across the entire federal government to respond to the pandemic's economic impact, to RER Solutions, Inc. (RER), a small business that could not perform core contract tasks or dramatically expand its EIDL services during a crisis. While RER subcontracted nearly all of the work required by the contract, with only six of its own employees assigned to it, the company pocketed more than \$340 million for the contract's performance.

Further, the report updates the Select Subcommittee's [previous](#) findings and concludes that through May 2022, 98 percent of Department of Justice (DOJ) prosecutions of COVID-19 EIDL fraud involve applications submitted during the Trump Administration, even as SBA has continued to disburse tens of billions of dollars in program funds during the Biden Administration. The Government Accountability Office has [noted](#) the improvement in fraud risk management under the Biden Administration, including through the use of the Treasury Do Not Pay list and verification of applicant tax information.

Chairman Clyburn released the following statement about today's report:

"Today's report underscores once again the Trump Administration's failure to act as an effective guardian of Americans' taxpayer dollars in responding to the economic crisis triggered by the coronavirus pandemic. They failed to take reasonable steps to prevent EIDL funds from being lost to fraud, and they wasted additional public funds by overpaying a contractor that did little to implement the program. Thankfully, the Biden Administration moved swiftly to install commonsense safeguards in the EIDL program that have ensured Americans' tax dollars go to eligible businesses, not to criminal enterprises. Future relief programs must adopt and build upon these best practices to prevent failures like those of the previous Administration from ever again defrauding the American people while making sure assistance reaches those who need it."

Today's staff report, entitled **"Idle on EIDL Fraud: How the Trump Administration Wasted Taxpayer Dollars by Leaving the COVID-19 EIDL Program Vulnerable to Fraud,"** is available in full [here](#) and reveals the following key findings:

The Trump Administration Failed to Implement Basic Fraud Controls, Leading to Billions of Dollars in Potentially Fraudulent Loans and Grants.

- Documents obtained by the Select Subcommittee show that, under the Trump Administration, SBA directed a subcontractor to create a "batch" approval function that allowed SBA employees to approve COVID-19 EIDL applications without any review. These documents show that SBA specifically asked its contractor to create this batch approval function. The Select Subcommittee has learned that SBA loan reviewers did not even have the ability to open EIDL application files included in batches; as a result, as many as 1.6 million, or 41 percent, of the 3.9 million loan applications that were ultimately approved may have been approved with no actual review by an SBA employee. SBA's directives further indicate that some applications were included in these batches for approval without review despite the presence of fraud indicators.
- The Select Subcommittee uncovered documents showing that, under the Trump Administration, even when EIDL applications were reviewed by SBA employees, the reviewers were directed to approve applications containing indications of identity theft without taking action to ensure the applications were legitimate. A Reference Guide instructed SBA loan officers to approve COVID-19 EIDL applications with indicators of fraud associated with identity theft, including where the applicant's online identity verification had failed and where the applicant's information couldn't be validated— even in cases where there was an indication the applicant may be deceased—without conducting additional diligence. Early in the Biden Administration, SBA strengthened this guidance to direct loan reviewers to ensure applications were legitimate.

The Trump Administration Awarded a \$750 Million EIDL Processing Contract to a Company that Relied on a Subcontractor for Nearly All of Its Work Yet Still Accrued Windfall Profits at Taxpayers' Expense.

- **The Trump Administration awarded a pre-pandemic EIDL contract to a small business—RER Solutions Inc.** (RER)—which did not have the capacity to immediately scale up loan recommendation services in a catastrophic situation. Prior to the pandemic, SBA awarded an approximately \$10 million annual EIDL processing and loan recommendation contract to RER as a small business set aside, even though there were clear indications that RER would need to rely on its large firm partner Rocket Loans (Rocket). Rocket, unlike RER, had significant experience with relevant lending technology and services.
- This was particularly concerning because **SBA foresaw the possibility that its EIDL loan recommendation contractor could be required to quickly scale up its services a hundred-fold in the event of a catastrophic disaster.** In light of regulations requiring that 50 percent of revenue from contracts set aside for small businesses remain with the original small business contractor, this decision also created the risk that, in an emergency, the contract would be greatly expanded and result in an unjustified windfall for RER at taxpayers' expense.
- At the onset of the pandemic, with demand for millions of EIDL loans and grants, RER's existing system run by subcontractor Rocket was not capable of handling the type and volume of EIDL applications submitted to SBA. RER had to further subcontract with Rocket-affiliated technology firm Rapid Financial Services LLC (Rapid) to build a system capable of handling the surge in EIDL applications. Rapid ultimately provided the vast majority of the labor and key inputs necessary to fulfill the COVID-19 EIDL contract.
- **The Trump Administration awarded the \$750 million COVID-19 EIDL loan recommendation contract—the largest individual contract awarded to respond to the pandemic's economic impact across the federal government—to RER without a competitive process or an adequate assessment of the reasonable cost of the services provided.** SBA did not use a competitive process for this award and instead modified RER's much smaller pre-pandemic contract. Contractor RER, through subcontractor Rapid, primarily provided automated services that required relatively little labor. RER's automated system reviewed COVID-19 EIDL application information in less than a second to provide fraud alerts, credit checks, and approval or denial recommendations. Despite this, SBA agreed to pay RER more than \$40 per EIDL application reviewed without assessing whether this price was reasonable in light of the actual costs the contractor would incur.
- **Illustrating the Trump Administration SBA's failure to ensure the contract was reasonably priced, RER ultimately netted more than \$340 million for the work of just six employees.** RER subcontractor Rapid provided most of the labor and technology needed to fulfill the contract, employing 163 employees and contractors who contributed to the company's work for SBA and providing proprietary software; Rapid received \$148 million, just 20 percent of the contract's proceeds. By contrast, RER subcontractor Rocket (a Rapid affiliate) received \$233 million for just 20 employees it contributed to the COVID-19 EIDL contract work. Most egregiously, prime contractor RER, which told the Select Subcommittee that it assigned only six employees to work on the contract and primarily engaged in "contractual administrative duties," pocketed \$340 million.

The report recommends that SBA OIG continue to assess the extent of fraud committed against the COVID-19 EIDL program; that SBA identify all COVID-19 EIDL applications approved early in the Trump Administration's implementation of the program that contained serious identity theft fraud alerts in order to aid in relieving identity theft victims from fraudulently incurred debts; and that SBA consider the labor and other actual costs in future contracts for automated technological services.

The Select Subcommittee's findings are based on 17,000 pages of documents obtained from SBA, RER, Rocket, and Rapid, two staff briefings with RER and Rapid, four staff briefings with SBA regarding the operation of the COVID-19 EIDL program, and a [hearing](#) on fraud in SBA programs that included testimony on EIDL fraud by the SBA Inspector General.

The Select Subcommittee launched its initial investigation into the EIDL program during the pandemic on [July 2020](#) following reports of errors and delays in SBA's ability to process applications and the Trump Administration's no-bid contract to RER Solutions. Following reports of extensive fraud vulnerabilities, the Select Subcommittee expanded its investigation in [February 2021](#) and expanded it further in [May 2021](#) and [July 2021](#). Initial findings of the Select Subcommittee—updated within today's report—were released in [March 2021](#) and [December 2021](#).

Click [here](#) to read today's report.

Click [here](#) to watch today's hearing.

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