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The Pandemic Economy.

Fintechs Made “Massive Profits” on PPP Loans and Sometimes Engaged in Fraud, House Committee Report Finds



Screenshots from videos included in a House subcommittee report show one of the founders of the financial technology firm Blueacorn, Nathan Reis, holding a wad of cash, as well as him sitting on the balcony of a luxury apartment in Puerto Rico. COMPOSITE BY PROPUBLICA

An investigation that began after reporting by ProPublica finds lax anti-fraud standards, executives who cashed in for themselves and contempt for small loan applications that would generate minimal fees. “Delete them,” one executive wrote.



by **Ken Schwencke**

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Financial technology firms at the front lines of approving loans through the Paycheck Protection Program — intended to help small businesses survive during the pandemic — lacked fraud controls, chased high fees to the detriment of some borrowers and sometimes exploited their business relationships to arrange suspect loans for the companies' own executives. One such executive falsely claimed in loan documents to be a Black veteran and received loans through multiple business entities.

These are among the findings in a [report released Thursday](#) by the House Select Subcommittee on the Coronavirus Crisis, which investigated the role financial technology firms, known as fintech companies, played in propagating PPP loan fraud. The committee referred its findings to the Department of Justice and to the Small Business Administration's Office of Inspector General.

“Even as these companies failed in their administration of the program, they nonetheless accrued massive profits from program administration fees,

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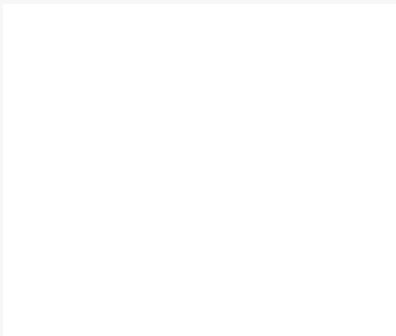
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Fintechs were often the front door to the PPP program: They processed huge quantities of loan applications and were hired in part to vet the documents for obvious signs of fraud before sending them on to lenders. But the vetting was often lacking. The investigation kicked off [shortly after ProPublica reported](#) that one fintech, Kabbage, [approved hundreds of loans for fake farms](#), including what claimed to be a potato farm in Palm Beach, Florida, an orange grove in Minnesota and a cattle farm on a sandbar in New Jersey. “The illegitimacy of these purported farms,” [Clyburn wrote in a letter to Kabbage](#) at the time, “would have been obvious if even the bare minimum of due diligence had been conducted on the loan applications.”

The report found that Kabbage at one point had only one full-time anti-fraud employee and considered the risk of approving fraudulent loans minimal. “A fundamental difference is the risk here is not ours — it is SBAs,” said one risk manager to his team when asked about identifying fraudulent loans, according to a company email cited in the committee’s report. Kabbage’s then- head of policy wrote that “at the end of the day, it’s the SBA’s shitty rules that created fraud, not [Kabbage].”

In a statement, the company said it was proud of the role it played in supporting businesses during the pandemic. “Kabbage’s existing online lending platform was able to process the sudden flood of loan applications, in a timely manner, in the midst of a national crisis and in light of ever-changing federal lending rules,” it said. “Kabbage adhered to the applicable rules and regulations in good faith.” The statement accused the committee of reaching a predetermined conclusion and asserted that the report does a “disservice” to the American people.

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The House report heavily cites ProPublica’s reporting and its [public database of PPP loans](#), as well as reporting from the Miami Herald, Bloomberg, the Project on Government Oversight and others.

According to the report, fintech firms acted as “paths of least resistance” for fraudsters looking to get taxpayer-funded loans, all the while lining owners’ pockets with lucrative fees for doing so. The companies were paid for every loan paid out and were incentivized to process loans quickly without doing much due diligence.

One such lender singled out in the report, Blueacorn, instructed staff to push through high-dollar loans that the company called “VIPPP” loans internally. The original fee structure for PPP loans meant that small loans netted Blueacorn and other services a few hundred dollars, while large loans would yield tens of thousands of dollars.

In Slack messages obtained by the committee, Stephanie Hockridge Reis, one of the company’s founders, made clear what the priorities should be. In one message, she said “closing these monster loans will get everyone paid.” In another, referring to a \$1.9 million loan as a “deal,” she wrote, “I don’t need to tell you how much Blueacorn makes off that loan alone.” She said of lower-dollar loans, “delete them, who fucking cares.”

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Stephanie
FUCK QWK

delete them

who fucking cares

We're not the first bank to decline borrowers who deserve to be funded

they go elsewehre

Slack messages obtained by the committee show a founder of Blueacorn directing employees to ignore smaller loans in favor of larger ones.

For the second round of PPP loans, the government changed the fee structure, making small loans much more lucrative to incentivize getting money to small businesses and the self-employed. But [ProPublica's reporting from January](#) showed that those most in need were sometimes left in a lurch by companies like Blueacorn. The companies lured customers with promises of quick approval of PPP loans, and once would-be borrowers were approved, they were locked in: Federal rules prohibited them from applying for a PPP loan elsewhere. Even if the loans were approved, though, the money didn't always make it to borrowers. A [ProPublica analysis showed](#) that hundreds of thousands of loans were likely canceled because of quick approvals that fell apart after additional screening.

Blueacorn did not immediately respond to a request for comment. Its current CEO, Barry Calhoun, told ProPublica in response to questions for a past article that the SBA should have helped by allowing lenders to access more documents that would ensure the borrower was legitimate. "A few adjustments would've gotten rid of a lot of the lazy fraud," Calhoun said. "Because there was so much ambiguity, it encouraged a lot of people."

[Scores of people wrote to ProPublica](#), perplexed that they showed up in our database of PPP recipients despite never having received money. They reported receiving quick approvals in spring 2021, followed by various snafus and then a monthslong runaround from companies like Blueacorn. Eventually, the lenders working with Blueacorn and other servicers would withdraw their initial approval and no funds were paid.

Terry Kilcrease contacted ProPublica after applying for a loan through Blueacorn in May 2021. After going back and forth with the company for months, he said, Blueacorn formally canceled his loan, telling him that his documentation made inconsistent claims. Kilcrease told us the application took just a few clicks to fill out, and he doesn't remember the exact documents that were requested.

"The big companies made out like fat cats, the lenders made out like fat cats, all these companies that already had plenty of money," Kilcrease told ProPublica in a previous article. "The people like me who are struggling to get there were just completely forgotten about."

Not only did Blueacorn collect millions in PPP fees, the House report uncovered that top Blueacorn executives and [close associates](#) received more than \$650,000 in PPP loans of their own. [Hockridge Reis](#) and her husband, [Nathan Reis](#), received nearly \$300,000 — in part through [separate companies](#), much of it processed through Blueacorn or its business partners.

Capital Plus, a lender that worked with Blueacorn, discovered some of these loans and requested Reis and Hockridge Reis repay over \$100,000, according to the report. But the committee found that at least six more loans were listed as forgiven.

Loan applications reviewed by the House committee likely would not have passed muster if more stringent controls had been in place. Reis falsely listed himself as an African American military veteran in one, according to the report. In another application, he claimed to be an independent contractor in his wife's business, but documentation obtained by the committee shows he was never paid by that company. Finally, both Reis and Hockridge Reis answered "no" to a question about whether they owned other businesses on multiple PPP loan applications for multiple businesses.

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A lawyer for Reis and Hockridge, who have both left Blueacorn, did not reply to a request for comment. According to public records, Reis relocated to San Juan, Puerto Rico, following his work at Blueacorn. In a video obtained by the subcommittee and viewed by ProPublica, he shows off a thick roll of cash in a bar last year, and in another video he and his wife are shown on a balcony of a luxury beachfront apartment. According to [corporate records](#), Reis started a new company, a lending service consultancy named Lender Service Consultants LLC. The address for the company is a different three-story luxury apartment. It sold for \$2.3 million in 2020 and features a plunge pool and two koi ponds.



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