

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2561 Rayburn House Office Building  
Washington, DC 20515-0515

**MEMORANDUM**

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**To:** Members, Subcommittee on Investigations, Oversight, and Regulations  
**From:** Judy Chu, Chairwoman  
**Date:** July 22, 2020  
**Re:** Subcommittee Hybrid Hearing: “Hybrid Hearing: 21st Century SBA: An Analysis of SBA’s Technology Systems”

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The Subcommittee on Investigations, Oversight, and Regulations will meet for a hybrid hearing titled, “Hybrid Hearing: 21st Century SBA: An Analysis of SBA’s Technology Systems”. The hearing is scheduled to begin at **1:00 P.M. on Wednesday, July 22, 2020, and will take place in room 2360 of the Rayburn House Office Building. Members who wish to participate remotely may do so via Cisco WebEx.**

During the Coronavirus pandemic, the Small Business Administration experienced an unprecedented level of applicants for the Paycheck Protection Program and the Economic Injury Disaster Loan programs. The influx inundated SBA’s systems leading to backend system crashes, portals operating slowly, and a glitch that led to a data breach of applicants’ personal information. The Committee will meet to examine SBA’s response to the technological issues that borrowers and lenders faced when applying for the economic relief programs.

**Panel:**

- Mr. Guy Cavallo, Deputy Chief Information Officer, U.S. Small Business Administration, Washington, DC

**Background**

In 2011, a Government Accountability Office (GAO) report found that the SBA had inconsistently implemented key information technology management practices for successfully overseeing its Loan Management and Accounting System (LMAS).<sup>1</sup> In response, the GAO provided two recommendations: (1) the CIO should ensure that SBA is applying the appropriate IT practices to the Incremental Improvement Projects (IIPs) and (2) the Administrator should clarify the responsibilities of the executive bodies responsive for the IIPs and ensure proper oversight of the projects. Both of these recommendations have been marked “Closed- Not Implemented”.<sup>1</sup>

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<sup>1</sup> U.S. Government Accountability Office, *SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization*, (January 2012) <https://www.gao.gov/assets/590/587937.pdf>.

In 2014, the GAO released a report following Hurricane Sandy with the finding that the SBA did not meet its timeliness goal for processing business loan applications.<sup>2</sup> It took the SBA 45 days to process physical business disaster loans and 38 days for economic injury loans, the goal was 21 days.<sup>2</sup> SBA said it was challenged by the high volume of applicants.

“Without taking its experience with early application submissions after Hurricane Sandy into account in its disaster planning documents and analyzing the potential risk early submissions may pose for timely disaster response, SBA may be unprepared for a large volume of applications to be submitted quickly following future disasters, which may result in delays in loan funds for disaster victims,” the GAO wrote in its report.<sup>2</sup>

There were issues found with the interoperability between the SBA’s Loan Management Accounting System and their Loan Processing System, E-Tran. <sup>2</sup> However, the SBA stated that instead of fixing E-Tran, a new technology system was being developed, SBA One, to replace E-Tran by 2015.<sup>2</sup> However, E-Tran is still being used today and SBA One is used as tutorial rules-based web application that is a front-end for E-Tran.

In 2015, the SBA OIG found that the SBA had only partially implemented several required IT management initiatives meaning that the agency could not provide reasonable assurance that its IT investments were cost-effective, met agency goals, or were effectively managed.<sup>3</sup>

In 2019, the OIG evaluated SBA’s information security program and found that overall it is “not effective per the evaluation criteria set forth by FY 2019 Inspector General Federal Information Security Modernization Act (FISMA) reporting metrics.”<sup>4</sup> KPMG audited SBA’s consolidated financial statements as of FY2019 and found that there was “significant deficiency related to SBA’s information technology security controls, which have been identified in the past.”<sup>5</sup>

As of August 2019, SBA spent \$27 million on certify.SBA.gov, an IT system intended to provide unified certification process across multiple SBA contracting programs, including: 8(a), HUBZone, WOSB and Mentor-Protégé participants.<sup>6</sup> However, to date, SBA has implemented limited functionalities for the different programs and there are complaints of significant latent defects in the system. Moreover, in FY 2019, SBA decided to change its original strategy and no

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<sup>2</sup>U.S. Government Accountability Office, *Additional Steps Needed to Help Ensure More Timely Disaster Assistance*, (September 2014) <https://www.gao.gov/assets/670/666213.pdf>.

<sup>3</sup>U.S. Government Accountability Office, *Leadership Attention Needed to Overcome Management Challenges*, (September 2015) <https://www.gao.gov/assets/680/672648.pdf>

<sup>4</sup> U.S. Small Bus. Admin., *Weaknesses Identified During the FY2019 Federal Information Security Modernization Act Review*, (March 30, 2020) [https://www.sba.gov/sites/default/files/2020-03/SBA\\_OIG\\_Report\\_20-10\\_508.pdf](https://www.sba.gov/sites/default/files/2020-03/SBA_OIG_Report_20-10_508.pdf)

<sup>5</sup> U.S. Small Bus. Admin., *U.S. Small Business Administration Officer of the Inspector General Semiannual Report to Congress*, (October 2019- March 2020) <https://www.sba.gov/sites/default/files/2020-06/SBA-OIG-Spring-2020-Semiannual-Report-508.pdf>

<sup>6</sup> Small Bus. Admin. Off. Of Inspector Gen., *Report 20-01, Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020*, 2020 (OCT. 2019) [hereinafter SBA OIG 20-01].

longer plans to use certify.SBA.gov to monitor 8(a) participants' business development. According to SBA's OIG, SBA plans to develop another IT system for this purpose.<sup>6</sup>

The SBA has focused on its IT issues and made significant improvements in the past few years according to its score on the Committee on Oversight and Reform's (COR) IT scorecard. From 2015 to 2019, its overall score went from a D to a B+. The areas that scored lowest in 2019 were cyber (D) and portfolio review (C).<sup>7</sup>

Several of the technical issues identified in the reports outlined above were brought to light with the stress the PPP and EIDL programs placed on SBA's IT infrastructure. These technical issues could have been prevented with proper planning and implementation.

### **Current Issues**

The Committee has heard from lenders, borrowers, applicants, and third-party vendors about technical issues they have encountered when applying for the Economic Injury Disaster Loan Program or Paycheck Protection Program. The main issues of concern are:

#### **1. Data Privacy**

On March 25, the Small Business Administration (SBA) detected a vulnerability in their EIDL application. They discovered that applicants' personally identifiable information was accidentally disclosed to other applicants. On April 13, the SBA sent a letter to the potentially affected individuals. According to the SBA, almost 8,000 small businesses who applied for loans through the EIDL program may have had their information exposed during the data breach.<sup>8</sup> Personal information that could have been divulged includes; email addresses, citizenship status, insurance information, birth dates, phone numbers, addresses, and Social Security Numbers.<sup>8</sup>

After the data breach, version 2.0 of the EIDL portal was created to fix the vulnerability that allowed for the breach. Businesses were directed to complete the application and upload scanned documents. Later, new guidance stated that SBA no longer needed the scanned documents and it advised businesses who had applied under version 2.0 and were not assigned a lending officer to reapply under the Rapid Portal. These applicants lost their place in the queue and were told to reapply once the EIDL portal reopened. However, when the EIDL portal reopened on May 4, the SBA only accepted applications from U.S. agricultural businesses (until June 15).

#### **2. E-Tran Capacity Concerns**

The E-Tran system is a SBA loan guarantee origination and servicing solution.<sup>9</sup> It allows for loans to be processed electronically and all lenders are eligible to use the system. However, there are several concerns with the E-Tran system's operational capacity, (1)

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<sup>7</sup> Committee on Oversight and Reform, *COR Biannual Scorecard - December 2019*, (December 2019)

[https://oversight.house.gov/sites/democrats.oversight.house.gov/files/12.11.19\\_FITARA%20Scorecard%209.0.pdf](https://oversight.house.gov/sites/democrats.oversight.house.gov/files/12.11.19_FITARA%20Scorecard%209.0.pdf)

<sup>8</sup> PYMNTS, *SBA May Have Exposed Data Of 8,000 SMBs Seeking Relief Loans*, (April 22, 2020)

<https://www.pymnts.com/news/security-and-risk/2020/sba-may-have-exposed-data-of-8000-smbs-seeking-relief-loans/>

<sup>9</sup> U.S. Small Bus. Admin., *E-Tran Electronic Loan Processing*, (2014)

[https://www.sba.gov/sites/default/files/articles/ETran\\_Origination\\_01\\_2014.pdf](https://www.sba.gov/sites/default/files/articles/ETran_Origination_01_2014.pdf)

E-Tran system crashes, (2) the processing capacity of the E-Tran system, and (3) the removal of applicants from the E-Tran queue.

Shortly after the launch of the PPP portal, the E-Tran system was inundated by applicants causing it to go offline for as long as four hours, which caused applicants and lenders to lose their place in the queue and halted their ability to submit applications to E-Tran. The E-Tran system crashed a second time on April 27 upon the reopening of the PPP portal. These crashes cause concern about the backend capacity of the E-Tran system, the system not only crashed, but it also processed applications at a very slow rate. Lenders stated that it took significant periods of time to get an application submitted into the system. After 5 hours, one bank reported successfully submitting only 7 out of 1,100 applications.<sup>10</sup> The SBA did increase bandwidth after the initial launch, which led to faster processing speeds for applications.

### 3. Difficulty Accessing E-Tran and Communicating with the SBA

Several lenders expressed frustration with their inability to access E-Tran and communicate with the SBA regarding technical issues. Several lenders were removed from the E-Tran system due to expired security certificates and in order to gain access they had to call the SBA, however several never heard back from the SBA regarding their access issues.

Lenders, applicants, and third-party vendors have complained about the lack of communication from the SBA.

- Lenders: A lender reported that they could not reset E-Tran and the SBA only allows lenders to reset through a call. The lender called and provided the information but never received a call back.
- Applicants: Applicants had difficulty accessing the status of their applications. Some were removed from the queue due to guidance changes and were not notified that they needed to reapply.
- Third-Party Vendors: There were reports that several third-party vendors that were trying to help lenders interface with E-Tran were declined licenses from SBA.

### 4. Duplicate Paycheck Protection Program (PPP) Loans

Several applicants have received duplicate PPP loans. Due to a lack of information from the SBA regarding the status of applications and changes in guidance, several borrowers applied through multiple lenders hoping that one of the applications would go through. The error that allowed applicants to receive duplicate loans was caused by a blind spot in the E-Tran system, which failed to identify when some borrowers submitted multiple applications with different lenders.<sup>11</sup> According to Reuters, at least 1,020 duplicate deposits were issued, which could amount to approximately \$116 million.<sup>11</sup>

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<sup>10</sup> Stacey Cowley, *Bankers Rebuke S.B.A. as Loan System Crashes in Flood of Applications*, (April 27, 2020) <https://www.nytimes.com/2020/04/27/business/sba-loan-system-crash.html>

<sup>11</sup> Michelle Price, Pete Schroeder, *Exclusive: U.S. small business program handed out virus aid to many borrowers twice*, (June 2, 2020) <https://www.reuters.com/article/us-health-coronavirus-usa-ppp-exclusive/exclusive-us-small-business-program-handed-out-virus-aid-to-many-borrowers-twice-idUSKBN2391S9>

5. *Synthetic Fraud through the Paycheck Protection Program (PPP)*

A synthetic identity is defined as the “combination of fabricated credentials where the implied identity is not connected to a real person”.<sup>12</sup> Individuals who create a synthetic identity may use a valid Social Security Number (SSN) with an existing address however, the combination of SSN, address, and birth date do not match to a single individual.

According to information shared during a cyber roundtable for the House Committee of Financial Services, the Paycheck Protection Program (PPP) is vulnerable to synthetic fraud. Based on their data, they estimate that 1-2 percent of PPP applicants are fictitious companies with synthetic owners and officers, which they approximate to be between \$3-8 billion of the program’s funding. Fraudsters are either applying for the program under a false company name or are using synthetic fraud to inflate their payroll so that they can receive more funding.<sup>13</sup> The Department of Justice has already indicted individuals for “conspiring to seek forgivable loans guaranteed by the SBA, claiming to have dozens of employees earning wages at four different business entities when, in fact, there were no employees working for any of the businesses.”<sup>14</sup>

6. *Portal for Forgiveness*

The SBA has recently released a new, streamlined forgiveness application form for borrowers, titled form 3508EZ.<sup>15</sup> In order to use the new EZ applications, applicants must meet specific requirements. The SBA’s forgiveness forms state that borrowers must submit them to their lenders, however, there has not been any guidance released about how the lenders will submit this information to the SBA. There is concern that the lenders will have to re-input data that they already submitted during the application process.

7. *Lack of E-Tran Resources for Lenders and Borrowers*

The Small Business Committee has spoken with SBA lenders who have reported that there were not resources, instructions, or training provided to lenders about how to submit applications in E-Tran. One lender said that they were “flying blind” and hoped that they had submitted the applications correctly for their clients.

8. *Expanding SBA Personnel*

Under the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA), the SBA received an additional \$2.1 billion for SBA’s salaries and expenses in order to expand personnel to address the large influx of applications, calls, and emails under the PPP and EIDL programs. **Error! Bookmark not defined.** However, a very limited

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<sup>12</sup> *Synthetic Identity Fraud*, <https://www.idanalytics.com/solutions-services/fraud-risk-management/synthetic-identity-fraud/>

<sup>13</sup> U.S. House Committee on Financial Services, *Committee Holds Bipartisan Virtual Roundtable with Cybersecurity Experts*, (May 28, 2020) <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406590>

<sup>14</sup> Department of Justice, *Two Charged in Rhode Island with Stimulus Fraud*, (May 5, 2020) <https://www.justice.gov/opa/pr/two-charged-rhode-island-stimulus-fraud>

<sup>15</sup> Julie Jason, JD, LLM, *SBA Releases New EZ PPP Loan Forgiveness Application*, (June 18, 2020) <https://www.forbes.com/sites/juliejason/2020/06/18/sba-releases-new-ez-ppp-loan-forgiveness-application/#6f90708b7571>

number of individuals are trained on the E-Tran system since it is a legacy system making it difficult for the SBA to quickly expand resources.

The GAO was asked to conduct a government-wide review of IT workforce planning. It recommended that the SBA ensure that it fully implements each of the seven key IT workforce planning activities it did not fully implement.<sup>16</sup> The SBA has recently provided Congress with a Statement of Action on how they will implement the remaining activities.<sup>16</sup>

## **Conclusion**

Small businesses who are struggling to remain operational turned to SBA's PPP and EIDL programs in order to keep their doors open. Unfortunately, several businesses ran into technical issues while applying for these programs and several still have not received funding due to these issues. Applicants experienced the portals crashing, lost their place in the queue, and were not privy to the status of their applications. Lenders had issues accessing the E-Tran system leading to difficulties with submitting their clients' PPP and EIDL applications and still have not been told how forgiveness is going to be carried out by the SBA. Therefore, this hearing will offer Members the opportunity to hear directly from the SBA's Deputy CIO about how they plan to address these technology issues moving forward.

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<sup>16</sup> "Statement of Action" in response to the GAO recommendation contained in its report GAO-20-129, *Information Technology: Agencies Need to Fully Implement Key Workforce Planning Activities*.