Fraud Checks and Errors Slow Small-Business Relief Loans

The renewed Paycheck Protection Program has disbursed $140 billion this year, but many applicants have had to wait weeks for lenders to resolve problems.

Shelly Ross found herself in a bureaucratic nightmare after requesting a second loan via PayPal for Tales of the Kitty, her San Francisco cat-sitting business. Anastasiia Sapon for The New York Times

By Stacy Cowley

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The problems plaguing those seeking loans from the government's revived small-business relief program have ranged from simple to shocking.

Some applications were stalled for weeks by typos. Overzealous fraud filters trapped others. A change of taxpayer identification rules snarled many freelancers and sole proprietors. And then there were the thousands of people turned down because they erroneously registered as having a recent criminal conviction.

"It's been a nightmare," said Martha Theirl, who spent hours battling three levels of customer-service support at her bank in her attempt to get a loan for her physical therapy business.

Six weeks into the second run of the Paycheck Protection Program, $140 billion in emergency aid has been distributed by banks, which make the government-backed loans, to 1.9 million small businesses. But a thicket of errors and technology glitches has slowed the relief effort and vexed borrowers and lenders alike.

Some are run-of-the-mill challenges magnified by the immense demand for loans, which has overwhelmed customer service representatives. But many stem from new data checks added by the Small Business Administration to combat fraud and eliminate unqualified applicants.

On Monday, the Biden administration unveiled a number of changes to address some problems and ensure that the most vulnerable small businesses get priority. For two weeks starting Wednesday, only businesses with fewer than 20 employees will be able to apply for loans. Under the general rules, businesses with up to 500 employees are eligible for aid.

Also, the Small Business Administration will revise the way loans are calculated so that sole proprietors and other self-employed individuals, who in the past were excluded from the program if they were not turning a profit, are able to tap more funds.

When the Paycheck Protection Program began last year, the Trump administration — eager to get money out the door as quickly as possible — eliminated most of the safeguards that normally accompany business loans. With applications approved almost instantly, thieves and ineligible borrowers siphoned billions of dollars from the $523 billion the program distributed last year.

In December, Congress approved $284 billion for a new round of lending, including second loans to the hardest-hit businesses. This time, the Small Business Administration was determined to crack down. Instead of approving applications from banks immediately, it held them for a day or two to verify some of the information.

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That caused — or exposed — a cascade of problems. Formatting applications in ways that will pass the agency's automated vetting has been a challenge for some lenders, and many have had to revise their technology systems almost daily to keep up with adjustments to the agency's system. False red flags, which can require time-consuming human intervention to fix, remain a persistent problem.

Numerated, a technology company that processes loans for more than 100 lenders, still has around 10 percent of its applications snarled in error codes, down from a peak of more than 25 percent, said Dan O'Malley, the company's chief executive.

The problems can be even more complicated for applicants seeking second loans who flew through the process the first time around despite errors that are being discovered only now.

Nearly 5 percent of the 5.2 million loans made last year had "anomalies," the agency revealed last month, ranging from minor mistakes like typos to major ones like ineligibility. Even tiny mistakes can spiral into bureaucratic disasters.

In June, Shelly Ross got a $67,500 loan through the program from PayPal for Tales of the Kitty, her San Francisco cat-sitting business. She applied last month for a second loan, but her application sat, stuck in an error queue, for more than a week. Her attempts to reach someone on PayPal's jammed customer-service phone line went nowhere.

Impatient, Ms. Ross put in applications at three other lenders, but each was rejected or left in limbo. Finally, PayPal got back to her with an explanation: Her loan in June was issued under an incorrect employer identification number. The company fixed the mistake, and Ms. Ross assumed her loan was imminent — until a new problem arose.

Before taking the PayPal loan in June, Ms. Ross had accepted, and then returned, a loan made in April by a different lender. That loan still shows up as active in the Small Business Administration's system, making it look as if she double-dipped last year, which is forbidden.

Ms. Ross has sent multiple emails to to the Small Business Administration's customer-service address describing her quandary. After two weeks, she received a generic response instructing her to direct questions to her lender.

"It's such a mess," Ms. Ross said. "In my head, I'm thinking about it all the time. Are they going to run out of money? Is this ever going to get resolved?"

Matthew Coleman, an agency spokesman, declined to comment on individual cases like Ms. Ross's. The Small Business Administration "continues to follow through with its commitment to improve resolutions of data mismatches and eligibility concerns," he said.

In mid-February, the agency began allowing lenders to essentially override many of its error flags and self-certify the eligibility of borrowers tangled in red tape. It also has a dedicated help line for lenders, but that, too, has been overwhelmed.

"In the first round, we could call the S.B.A. and get a warm body to talk about a resolution of a matter," said James Bason, the chief executive of TruFund Financial, a lender that focuses on underserved communities. "That's been much harder this time."

Many persistent borrowers have succeeded: Thien Dang finally obtained a loan for his website development business in Woodstock, Ga., after trying four lenders.

Mr. Dang got a $5,200 loan in April from a regional bank, but when he returned in January for a second-round loan, his application was stalled for weeks, for no apparent reason. He ran into similar delays at the next two lenders he tried. Finally, his fourth application, through Biz2Credit, was approved.

The process was notably erratic: Each lender he approached asked for a different set of business records. "It was nowhere near as fast or efficient as last year," Mr. Dang said. "But any relief at all is helpful."

Lenders and government officials believe the program's funding will be enough to meet demand. The first Paycheck Protection Program notoriously ran out of funding in less than two weeks. This time, more than one month in, the program has disbursed less than half of the available money.

But the clock is ticking: Lending is scheduled to end March 31. That deadline has spooked some borrowers who fear they won't get their problems resolved in time.

"There's a lot of anxiety," said Rohit Arora, the chief executive of

Biz2Credit. “People are angry, upset and they’re suffering. Not knowing how long things will take is adding to their frustration.”

Through its lending subsidiary, Itria Ventures, Biz2Credit has been the program’s most active lender this year. Mr. Arora estimated that at least 20 percent of the nearly 140,000 loans the company had made ran into problems.

Nearly 70 percent of the loans approved this year have been for second-time borrowers, according to the Small Business Administration’s data. The largest share of money has gone to borrowers with food and hospitality businesses.

TD Bank is seeing heavy demand, especially for second loans, from “smaller, Main Street-type businesses” like restaurants and entertainment venues, said Chris Giamo, its head of commercial banking.

“This money is so critical for local economies and the health of small businesses throughout the country,” he said.

For entrepreneurs like Ms. Theirl, who applied last month for a loan from Bank of America, chasing the cash can feel like an obstacle course: Every time one problem is solved, a new one arises. Banks are scrutinizing applications more closely than they did last year, which has contributed to the delays, especially for complex cases.

Ms. Theirl started her company, Q4 Physical Therapy in Westborough, Mass., in April 2019, and is seeking a loan based on her 2020 tax records, which she paid her accountant to prepare early.

She scoured the bank’s guidelines and the Small Business Administration’s instructions and carefully gathered all of the requested records, but the bank gave her varying — and, at times, directly contradictory — guidance on how her taxes should be prepared, she said.

Bill Halldin, a Bank of America spokesman, said the bank was “working closely with clients to help them navigate the requirements of the program.”

On Thursday, Bank of America canceled Ms. Theirl’s loan application, saying she had not provided all of the documents it had asked for. On Friday, after a New York Times reporter contacted the bank, a loan officer called Ms. Theirl and told her that the cancellation had been a mistake. He guided her through a new application, which she hopes will be approved shortly.

“He said, based on what he’s seen, he doesn’t anticipate any issues,” she said. “I said I’d wait and see.”

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