

CLIENT ALERTS

PPP Fraud Prosecutions on the Rise

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When Congress enacted the Paycheck Protection Program (“PPP”) through the CARES Act in March 2020 in response to the COVID pandemic, businesses rushed to apply for this federal aid to bridge them through the initial lockdowns and operational restrictions imposed across the country.

Because speed was of critical importance, the federal government allowed banks to relax typical due diligence standards when disbursing PPP funds. At the same time, businesses were eager to obtain these funds because the loans could be fully forgiven if the funds were used for authorized purposes. About 5.2 million companies secured over \$500 billion in PPP loans in record time.

It appears that the lure of “free money” caused some to lie on their PPP loan applications. Federal prosecutors have already started indicting those who they claim abused the system for personal gain. Some recent examples include:

- In Detroit, federal prosecutors brought charges against a Novi man for allegedly supplying false payroll information for 19 different companies in the hopes of securing \$3.1 million in funds.
- In Texas, a man was accused of using \$1.5 million in PPP funds paid to his business to pay off his personal home mortgage;
- In Washington, prosecutors allege that a loan applicant misrepresented that the funds would be used to pay his company’s workers, even though they worked for another company; and
- In New York, two brothers were accused of submitting false tax returns to document historical employee wage expenses.

If the allegations are true, those are the “easy” cases. But prosecutors don’t typically stop at the easy cases. As businesses apply for PPP loan forgiveness, prosecutors and federal agents

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will be closely scrutinizing the representations made in your loan and forgiveness applications—especially for loans over \$2 million. Those who may have (even arguably) stretched the truth to secure badly needed funds may find themselves in the crosshairs of a federal investigation.

If your business received PPP loans, be proactive. Protect the business you've worked hard to keep afloat during these challenging times. Butzel Long's CARES Act Team has a deep understanding of the CARES Act safe harbor and forgiveness appeal process, and our White Collar Criminal Defense Team has decades of experience handling federal fraud investigations and prosecutions. We can review and analyze your PPP loan and forgiveness paperwork to identify areas of potential concern and give you guidance on how to address any concerns we find. And, of course, we stand ready to defend you if law enforcement ever comes and knocks at your door.

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