

The First Tee...

COVID Crime Pays...virus Small Business Relief Program is rife with borrower fraud:

- Scam artists from Americans to international criminals were submitting bogus applications to the Small Business Administration (SBA) for grants due to economic injury:
 - The \$10k grant relief payments were provided for small companies with at least 10 employees:
 - Due to the unprecedented scale and urgency of businesses in financial difficulty due the pandemic economic shut-down, the government instructed the SBA to prioritize speed over thrift (opening the door for fraudulent filings):
 - Congress instructed the SBA to relax normal fraud safeguards...declaring applicants should be considered eligible if they said they were.
 - The avalanche of applications used-up the \$20 billion allotted for grants by July, but scammers have continued to receive funds from a separate \$192 billion program that was designated by the SBA for loans:
 - A report released in October by the SBA's inspector general identified billions of dollars that were attained through potentially fraudulent transactions, including multiple loans sent to applicants using the same bank account or address.
 - Over 3.6 million loans have been issued by the SBA, plus 5.8 million in grants (grants do not have to be repaid).
 - The \$525 billion Paycheck Protection Program used banks (not the SBA) to distribute forgivable loans to cover payroll.
- The SBA's disaster-aid program was designed for regional issues like hurricanes and fires:
 - The agency was unprepared to handle a nationwide pandemic that disrupted millions of businesses:
 - To assist with the processing, the SBA contracted for a new \$750 million computer system to be built from scratch... that was contracted to RER Solutions, Inc. with most of the program's development done by Rocket Loans:
 - The new system was called "Rapid Decision"; the program took loan applications submitted to the SBA website that would be checked against a list of indicators for fraud or ineligibility (including those already receiving a loan or using a dead person's social security #):
 - Rapid Decision was processing over 100k applications a day...providing borrowers with quick cash through the grants with little human intervention.
 - The computer system was designed to run fraud checks on the person submitting the application, the bank account designated to receive funds and the internet address used to submit the application...but it did not confirm if the business actually existed.
 - The SBA also hired 5,000 additional workers to help with the increased workload...the SBA had 3300 total employees in 2015).
- The criminals have used up funding that was/is needed by struggling small companies:
 - Many legitimate applicants were denied grants because scammers got the money before them:
 - As evidence surfaced about Rapid Decision's vulnerabilities, the SBA began instructing staff to be cautious of applications from known fraud hotspots...including Atlanta, Chicago, Houston and Miami:
 - SBA data released in August found that 52 congressional districts around these cities had issuance of the \$10k grants that exceeded the number of eligible recipients...a total of 128,000 excess grants were issued worth \$1.3 billion:
 - In the Illinois' 2nd Congressional District (located in south Chicago from Chicago Heights to Kankakee) the number of grant payouts exceeded the number of eligible recipients by 12 times (*my kind of town, Chicago is!*)
 - Cybersecurity researchers have also found evidence of foreign fraud to attain business virus relief funds:
 - Scammers from the usual suspect countries such as Russia and Nigeria have been noted:
 - The key logistic problem for foreign criminals was not getting the SBA to deposit money into bogus bank accounts, but getting the money out of the U.S...this has been primarily achieved by using online institutions such as Green Dot Bank and Chime.
 - The SBA announced it has referred over 80,000 loans for criminal investigations:
 - The SBA inspector general reported that \$450 million in doubtful payments have been seized by law enforcement:
 - SBA relief loans and grants were supposed to only go to businesses with established tax ID numbers as of February 1st:
 - The SBA inspector general found 22,706 loans and 45,385 grants worth \$1.1 billion, went to companies who did not have Feb. 1 tax IDs.
 - Down on the farm; Not...a single address in a Cleveland suburb had 20 Ag companies registered:
 - The owner of the property, Zaur Kalantarli (immigrated to the U.S. from Azerbaijan in 2015) operated four companies involved in printing and real estate that pre-dated the pandemic (that received SBA relief loans & grants):
 - The day after receiving the SBA approval on the first loan, Kalantarli registered the first of what would total 72 agriculture designated companies using three Cleveland suburban addresses tied to Kalantari and his relatives:
 - Upon investigation, none of the addresses exhibited agriculture activity or had any business activity before Feb 1st (or were registered with the Ohio Secretary of State before May)...but still received \$7.2 million in loans and grants from the SBA.

At the turn...

The Back Nine...

Monetizing Monopoly...sustained quantitative easing by the Federal Reserve is pointing to the Central Bank having to help to fund the federal government for infinity:

- The explosion of government debt has been parlayed into an ever-expanding size of the U.S. Treasury market, outpacing the private sectors ability to support the borrowing:
 - The Fed's role is seen as one whose support is needed to maintain a functioning market in Treasuries
 - The end result of these actions is the Fed monetizing the debt by printing money to fund government spending:
 - Fed Vice Chairman Randal Quarles has stressed he does not believe there is a need for a permanent Central Bank backstop in normal times.
 - There was a reality check last fall when the Fed was forced to inject a large amount of cash into the system to facilitate trading when the repurchase market seized-up after a liquidity squeeze:
 - The Fed placed an additional \$163 billion on their balance-sheet the last two weeks of September last year (the largest balance-sheet increase since 2009)...by the end of 2019, the Fed had added an additional \$400 billion in bond holdings.
 - The size of the Treasury market has ballooned to \$20.5 trillion, of which, the Fed owns 22% (a record high):
 - The U.S. is trending towards Japanese monetary behavior...as the Bank of Japan is purchasing almost 90% of all Japanese government debt:
 - It is in the government's best interest to keep interest rates perpetually low to infinity and beyond, as servicing the interest payment on the debt could become unmanageable if rates return to more historical norms (*not exactly sure what normal is these days?*):
 - A little average rate history on the 10-year Treasury Note...since 2010: 2.3%; since 2000: 3.3%; since 1990: 4.4%; since 1980: 5.9%; since 1970: 6.2%.
 - The U.S. fiscal budget deficit for 2020 tripled to \$3.1 trillion...pushing the total debt to over \$27 trillion:
 - If the debt keeps expanding at an accelerated pace, the Fed will have to continue to buy hundreds of billions of securities just to maintain a 20% share of the Treasury market...and that's a lot of quantitative easing!

Be Thankful...despite all the issues we have faced this year, it could be worse:

- Extreme global poverty is expected to see its first increase since the 1990's (according to World Bank):
 - Impacts from the coronavirus and climate change is anticipated to increase the extreme poverty numbers by 88 million to 115 million...with the total rising by an additional 150 million next year:
 - The World Bank defines extreme poverty as living on less than \$1.90 per day!!!
 - Surprisingly, eight out of ten people who fall into extreme poverty will be from middle-income countries:
 - There is also a trend of people impacted by extreme poverty shifting from historically rural areas to city residents.
 - To reverse poverty trends, the WB asserts countries will need to prepare for a different economy:
 - In the post COVID environment, they will need to allow labor, skills and innovation to move into new businesses.

19th Hole...

A leader leads by example, whether he intends to or not.

Anonymous

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