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November 24, 2020

PRIVILEGED AND CONFIDENTIAL

The Honorable James E. Clyburn
Chairman
Select Subcommittee on the Coronavirus Crisis
United States House of Representatives
Washington, D.C. 20515

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

The Honorable Steve Scalise
Ranking Member
Select Subcommittee on the Coronavirus Crisis
United States House of Representatives
Washington, D.C. 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

Dear Chairman Clyburn, Chairwoman Velázquez, and Members of the Committees:

On behalf of RockLoans Marketplace LLC ("Rocket Loans"), this letter responds to follow-up questions directed to our outside counsel. The additional requests focus on (1) the documentation related to management of the contract and (2) the documentation related to the project's fraud controls. This response provides additional context to assist your Committees in understanding Rocket Loans' role with providing the Small Business Administration's Office of Disaster Assistance (SBA-ODA) with a technology solution.

About Rocket Loans

Rocket Loans is a subsidiary of Rocket Companies, a Detroit-based holding company consisting of tech-driven real estate, mortgage, and financial services businesses – including Rocket Mortgage, Rocket Homes and Rocket Auto. Each company is a separate legal entity operated and managed through its own management and governance structure.

Rocket Loans sets the standard for a simple, fast, and secure personal lending experience. Our team members are focused on creating a completely online, personalized technology platform to help financial institutions make loans in a compliant, efficient, data-driven, and automated fashion. In 2016, we successfully launched our online technology platform, rocketloans.com, to the public. Ultimately, we were granted two patents related to our use of data driving decisions in our process: "User Authentication" (Patent #10,685,131) and "Generating aggregated data from fragmented inputs" (Patent #10,255,424).

About Rapid Finance

Founded in 2005, Rapid Financial Services is a leading provider of financing solutions to small businesses throughout the United States. Through its financial technology-enabled underwriting platform, Rapid has served more than 35,000 small businesses with over $2.2B in financing. Powered by a highly scalable flexible technology platform and best-in-class customer service, the company excels at speed to decision by leveraging commercially available and proprietary data sets along with proprietary risk and fraud management algorithms to make the right offer to the right customer at the right time.

Summary of EIDL Program Related to COVID-19

The SBA-ODA needed a technology solution to analyze the onslaught of small business loan applications that they were receiving for their EIDL program related to COVID-19. As explained in more detail below, our combined efforts quickly overhauled the SBA-ODA's pre-existing EIDL lending platform, which allowed the SBA to successfully process and fund an unprecedented influx of applications.

"It was a historic year for the SBA's disaster program, as we approved and disbursed more than three times as many funds for the COVID-19 EIDL program ($211 billion) as we have for all disasters combined in the Agency's 67-year history ($67 billion)," said Associate Administrator for SBA-ODA's James Rivera.[1]

Background and Contract Timeline

As noted in our previous responses and during our briefing, on or around March 17, 2020, the SBA-ODA initiated conversations with RER Solutions-Rocket Loans due to a growing backlog of EIDL applications (resulting from the national emergency declared on or around March 13).

It is our understanding that the following factors lead to the SBA-ODA's need to overhaul the pre-existing system as a result of the COVID-19 pandemic and national emergency:

1. Historically, the SBA-ODA's system processed loan applications related to natural disasters limited to specific geographical areas. Prior to COVID-19, Hurricane Irma represented the largest application volumes for a specific event in the history of the SBA-ODA, resulting in around 110,000 applications and 33,000 funded loans. To date, over 15 million businesses have submitted EIDL applications based on the COVID-19 national disaster.
2. Applications involving personal property damage have historically represented over 85% of applications ever submitted. EIDL applications resulting from natural disasters represented less than 15% of applications ever submitted to the SBA-ODA.
3. The pre-existing disaster system (DCMS) was built and scaled based on estimated volume projections related to natural disasters hitting distinct geographic areas and primarily impacting individuals, and that a natural disaster impacting the entire country at once had not been contemplated.

The SBA-ODA reached out to the Rocket Loans team because we were delivering on our initial engagement with the SBA and have extensive expertise in financial technology ("FinTech") platforms. Rocket Loans core business is focused on consumer lending, and while there are some parallels between consumer and commercial lending, there are a myriad of unique and challenging differences. If not for Rocket Loans' relationship with and deep knowledge of Rapid Finance's capabilities, Rocket Loans would have likely declined the SBA-ODA's request for assistance.

[1] https://www.sba.gov/article/2020/oct/28/sba-achieves-historic-small-business-lending-fiscal-year-2020

Once RER Solutions, Rocket Loans and Rapid Finance understood the needs of the SBA-ODA (through phone conversations and system reviews with the SBA-ODA's experts), we were confident that we could present the SBA-ODA with a solid technology solution. Once we agreed to undertake the work, our teams spent the next few weeks understanding the business requirements and demonstrating the newly built rules-based platform as it was being configured to meet the needs of the CARES Act.

While RER Solutions focused on working with the SBA-ODA to determine the appropriate path forward for providing the RER Solutions-Rocket Loans-Rapid Finance technology solution, Rocket Loans was engaged in good faith, arms-length negotiations with Rapid Finance to use their proprietary technology. Hundreds of individual engineers and consultants invested nearly a million hours of development time over the course of 9+ years to create Rapid Finance's technology. The system configured for use by the SBA was a derivative of Rapid Finance's own lending platform. The project also required the technological development of a new online application (see enclosed documents for the design specified) for small businesses to apply, and the integration of the system to eTran where approved loans would ultimately reside (see enclosed document for the integration guide).

For additional context, the timeline below provides more detail regarding the RER Solutions-Rocket Loans-Rapid Finance relationship.

Rapid Finance is a Leading FinTech Company specializing in Small Business Lending	
2005	Rapid Finance (f/k/a RapidAdvance) is founded and begins to provide financial support to small businesses.
2010-2020	Rapid Finance establishes itself as a FinTech leader in the small business lending industry with capital investments to date in excess of $140M, culminating in a flexible technology platform that can be configured to support countless business rules and workflows.
Rocket Loans is formed and launches a FinTech platform in Marketplace Lending	
2015	Rocket Loans is founded, as a direct-to-consumer FinTech marketplace lender.
2016	Rocket Loans launches rocketloans.com as a direct-to-consumer personal loan platform based on automated underwriting through a self-serve online client portal. Multiple patents are issued related to the identity verification and data aggregation processes to verify income.
2016	Rocket Loans and RER Solutions establish a relationship in hopes that they may be able to find opportunities to work together in the future.
Rocket Loans and RER Solutions respond to SBA request for Technology Services	
09/2018	Rocket Loans and RER Solutions enter into a Teaming Agreement to respond to an RFP issued by SBA.
12/2018	SBA awards RER Solutions a Single Award (IDIQ) Contract (IDIQ 73351019d0001) where fair and reasonable pricing is established for services provided to retrieve consumer and property data from multiple data sources, analyze data based on guidelines provided by SBA, and render recommendations to improve accuracy and efficiency in decision making on a cost per transaction basis. This recommendation engine served as an automated feature within an overarching solution to process disaster relief applications. The overall system (referred to as DCMS) encompassed online applications, data validation, workflow, user interfaces used by SBA-ODA personnel to review and make loan determinations, and an interface to eTran to obligate and fund approved loans.

04/2019	RER Solutions and Rocket Loans entered into a Subcontract Agreement. (Please refer to agreement previously provided to committee).
11/2019	RER Solutions and Rocket Loans deploy new technology into DCMS to improve the accuracy and efficiencies of Loan Officers and Loss Verifiers in relation to physical damages as a result of natural disasters.
COVID creates significant challenges for Small Businesses across America	
03/13/2020	President Trump declares a National Emergency, which releases $7Bn in funding available to small businesses via EIDL application process.
03/13/2020	Existing DCMS system begins to experience backlogs, which the SBA immediately monitors and responds to in an attempt to provide support to small businesses impacted by COVID.
03/17/2020	SBA contacts RER Solutions-Rocket Loans to describe their concerns related to challenges in the pre-existing DCMS platform. While the SBA continued to address and support the current DCMS solution, the DCMS solution was incapable of supporting the existing backlog and were growing increasingly concerned with new applications that continued to queue. It is our understanding that hundreds of thousands of applications were being submitted per day.
03/20/2020	Rocket Loans requests verbally requests from RER Solutions to introduce Rapid Finance in an effort to explore options in response to the SBA inquiry. Verbal discussions ensued related to the possibility of creating a derivative work from the Rapid Finance system which was specifically built to efficiently process business loan applications and could be rapidly re-configured by verbally discussing the administrative controls to update configurations and workflows. This significantly minimized any new engineering that would be required to assist the SBA.
03/20/2020	Rocket Loans and Rapid Finance formalize a subcontracting relationship via a contractual agreement.
03/21/2020	Rocket Loans and Rapid Finance voluntarily began incurring expenses by establishing a copy of the code base in a fresh environment and performing necessary administration to refresh the system and create a clean platform that could be used to configure system parameters specific to the needs of the SBA. Rocket Loans and Rapid Finance had no guarantees that the SBA would ultimately determine if this was the best solution, but began to dedicate time, money, and resources in order to execute quickly in the event we were asked to assist. This included efforts related to building a framework to accept new online applications.
03/27/2020	CARES Act enacted, which increases funds available through EIDL. EIDL Advance is presented as an option for small business owners along with other changes to pre-existing EIDL program. [2]
03/28/2020	RER Solutions, Rocket Loans and Rapid Finance conduct live demonstrations of revisions to the beta version of the application process with the SBA-ODA.
03/29/2020	The SBA-ODA issues Task Order 2: "This RFQ for the 2nd order against IDIQ contract 73351018D0001 to procure Data Analysis and Loan Recommendation Services, Incorporate System and Process Changes, to add e-Signature Capability and Grant Support as applicable for the Small Business Administration, Office of Disaster Assistance in support of COVID-19."

[2] https://www.congress.gov/bill/116th-congress/house-bill/748

	The documented requirements were provided in the Statement of Work in Task Order 2 and summarized below: 1.1 SPECIFIC REQUIREMENTS Contractor must intake loan application information, analyze and supplement that information as needed, create electronic loan documentation including e-signature capabilities, and provide recommendations on loan decisions. Contractor will provide a method of allowing SBA to access the system and provide final loan decisions and loan disbursement. The service should be fungible to ODA's Standard Operating Procedures without a change in service level from small agency declarations to large presidential declarations. The contractor must provide a loan recommendation as "approve" or "decline" along with a copy of all information (in an electronic documentation format) that the contractor used to make its recommendation, submitted to ODA for technical/final review. Once the data has been analyzed and the recommendation provided to ODA. An individual within ODA will review the documentation analyzed by the contractor and will make the final determination of whether to approve or deny any particular loan. For loans approved by ODA, the contractor will originate a loan in the Office of Capital Access (OCA) Capital Access Financial System (CAFS). The contractor will be responsible for entering the required data to originate and disburse a Disaster loan. The contractor will be will request permission from ODA to update/modify loan data as needed. The contractor is responsible for ensuring that personnel adhere to SBA security and financial controls for loan data. Enclosed is the complete Statement of Work.
03/29/2020	Based on the preparation occurring over the previous week, RER Solutions, Rocket Loans and Rapid Finance conducted a final live walkthrough of the application with the SBA, final adjustments made, and new application portal specific to the CARES Act was launched.
03/30/2020	With the issuance of Task Order 2, the SBA, RER Solutions, Rocket Loans, and Rapid Finance representatives worked via online presentations, and over the phone to walk through configuration settings in real-time that were adjusted and tested based on verbal input from SBA-ODA. These efforts continued until the processing system could be stood up to begin processing queued applications.
04/05/2020	Applications not previously processed from the DCMS queue are merged with pending applications from the new portal and sequenced in the order in which they were received.
04/07/2020	The system to process applications, based on configurations and adjustments made and tested in real-time at the direction of the SBA begins processing applications in small batches. This was done intentionally to verify all of the configurations that had been previously made could be reviewed and confirmed prior to processing large quantities of applications. Minor adjustments were discussed and modified in real-time over the course of the following week.
04/12/2020	eTran integration launched, which completes entire front-end process lifecycle of creating application, processing, and funding.

04/16/2020	The processing system is opened to full capacity. At the time, there were over 3.5 million applications queued. On average about 110,000 applications per day started to flow through the system. The system was monitored, supported, and maintained 7 days a week, 24 hours a day.
03/2020-Current	RER Solutions-Rocket Loans-Rapid Finance provide daily and continuous support and enhancements based on the needs and direction of the SBA.

CONTRACT MANAGEMENT

It is our understanding that, prior to the declaration of the COVID-19 emergency, the SBA-ODA did not anticipate the need for a new solution to accept and process EIDL applications. As a result, there were no formal requirements that were documented in anticipation of a new solution.

Rather, our understanding is that the SBA-ODA was growing increasingly concerned, even in the timeframe between the national emergency declaration and the CARES Act, that the mounting backlog of applications could not be efficiently reviewed and processed in a manner to appropriately meet the needs of small businesses across the entire country. For context, our understanding is that since the creation of the SBA-ODA, small business EIDL applications represented a small fraction of historical disaster relief applications, and in this case was not limited to a geographical footprint. Nearly every small business in America, including independent contractors and sole proprietors became eligible for relief.

As the Committees are aware, RER Solutions is the Prime Contractor in this engagement. As such, RER Solutions facilitated all contractual administrative duties, including the negotiating of the cost of leveraging the existing Rapid Finance system and related services. As we have stated in the past, Rocket Loans served as a subcontractor to RER Solutions, and Rocket Loans engaged Rapid Finance as a subcontractor in order for Rocket Loans to fulfill its duties under this agreement. As a subcontractor, Rocket Loans received 49% of net revenues (after shared expenses) as a result of this engagement, and Rocket Loans was solely responsible for compensating Rapid Finance, as their subcontractor, from that 49%.

RER Solutions synthesized from all involved parties the technology solution that needed to be configured on an expedited basis and provided a quote to the SBA that extended the pricing already in place under the pre-existing engagement. The SBA was buying a vetted technology solution and the team provided a roadmap for configuring it to the specific needs of the SBA-ODA. As such, none of the parties kept nor were expected to keep hourly records.

RER Solutions also ensured the quote included tech support and access to loan processors at Rapid Finance who were familiar with the platform to provide manual intervention support when appropriate. The core of the technology solution was designed to process applications and auto-recommend, but there was still an understanding that a significant percentage of loans would require manual review, and all would require SBA employee ultimate approval.

The contract Rocket Loans entered into with Rapid Finance focused on what the parties believed was fair in light of the unusual and urgent circumstances and based on the known value of the Rapid Finance product. Rocket Loans pays Rapid Finance 100% of Rapid Finance's hard costs, plus a monthly fixed fee March 2020 - June 2021. The parties also agreed that Rocket Loans would pay Rapid Finance 20% of Rocket Loans' net revenue from this engagement. In August, the parties agreed to increase Rapid Finance's share from 20% to 40%.

Enclosed are copies of Rocket Loans' invoices to RER Solutions, and Rapid Finance's invoices to Rocket Loans.

INTERNAL CONTOLS AND FRAUD CONTROLS

The Committees have requested additional information related to the EIDL system's fraud controls, business rules, and a sample of the dashboard created for the SBA-ODA loan officers. Enclosed is Rapid Finance's System Training Manual delivered to the SBA-ODA, which includes screenshots of all Loan Officer screens.

The RER Solutions-Rocket Loans-Rapid Finance technology solution married the configurable, proprietary system Rapid Finance used in its business with the unique needs of the SBA-ODA. Because the system is extremely complex, yet flexible, and that prior to this engagement it was leveraged exclusively by Rapid Finance internally, there are no promotional materials to describe the rule-configuration process. That said, we provide the list of controls below, and believe this list along with our upcoming briefing from key contractor personnel will explain how the rules are configured to meet the specific needs of this inquiry.

The system performs data validation (for example making sure a phone number contains only numbers), and data verification (for example using independent third-party services to confirm that a phone number is valid). The system does not confirm the existence of fraud but rather flags a loan for potential fraud based on performing data validation and verification on all available inputs through the controls below to verify: business owner(s) data, business data, bank account information; evaluate credit report information as suspicious and potentially fraud; behavioral data showing application velocity, common information on different applications (IP Address, Device ID, names, phone number, email, EIN/SSN, etc.) When any data validation, data verification, or potentially suspicious activity is discovered, the loan is flagged with the relevant information for Loan Officer review where the ultimate approval decision is made.

Data Validation & Controls:

- Intake Application form field validations for correct data types and completeness
- Intake form user input review prior to submission
- Applicant data submission certification requirement
- Identity information application velocity check
- Identity Information validation
- Email address validation
- Phone number validation
- User identity validation with out of wallet questions
- Public records lookups
- Bank account data validation check
- Bank account ownership check
- IP address and device screening
- Credit report for score and fraud flags

System Decision Controls:

- Duplicate application detection
- Related application linking on multiple data attributes
- Red flag alerts for data attributes indicating potential for suspicious activity
- ODA Rule of Two requirement for loan approval
- 70+ business rules to determine business eligibility & loan/advance amounts

- Role-based approval restrictions
- Role limited reconsideration workflow
- User restricted failed disbursement processing
- User action logging and notes updates

System Access and Workflow Controls:

- [redacted]

Network & Application Security:

- [redacted]

Attack Mitigation and Security Monitoring:

- [redacted]

A key distinction related to fraud detection between the commercial implementation of the system versus the environment configured for the SBA-ODA is dependency on tax returns to validate information submitted in applications. In commercial use, Rapid Finance's processes routinely required an applicant to submit an IRS 4506-T form. Through the IRS 4506-T form, an applicant authorizes the lender to retrieve unedited tax returns directly from the IRS to among other things, verify the existence of a business, validate that it was operational, validate the type of business (especially in the cases of self-proprietorship and 1099 employees), and confirm actual income reported. The version of the Rapid Finance proprietary technology solution configured for the SBA-ODA removed this standard commercial process to obtain tax returns from applicants since the CARES Act prohibits the ability to use tax returns in the verification process.

Rapid Finance and Rocket Loans worked with SBA to design a system that flagged applications for certain fraud markers. The final review and signoff of those flags was solely the province of SBA-ODA. SBA-ODA provided guidance related to how the SBA-ODA Loan Officers review and decision potential fraud once flagged by the system.

The Committees are certainly aware of, and rightfully concerned about, the alarming reports issued by the OIG that indicate numerous categories of "potential" fraud. We encourage the Committee to review the entire reports, including the SBA responses to the OIG. In their responses, the SBA provides evidence of research, analysis, and the results of that analysis to largely refute actual fraud within the categories sited by the OIG. The data summarized on page 65 of the "Inspection of Small Busines Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic Report Number 21-02 October 28,

2020"[3], demonstrate the direct impact of the controls previously described by showing the category and count and volume of loans that were prevented from funding as a result of the system flags set during processing.

VALUE

The Committees asked us to provide information sufficient to show the value that Rocket Loans has provided. We certainly appreciate the Committees' request, and we respectfully suggest there are several factors to consider in assessing the value.

- Rocket Loans and Rapid Finance provided the SBA-ODA with a proven commercial platform that (a) has been operational in Rapid Finance's day-to-day business to serve the needs of small business owners, and (b) was the result of nearly a decade of significant capital investments and nearly a million hours of development. Also, important to note, this proven commercial platform included integration of multiple pre-existing, pre-negotiated relationships with vetted commercial third-party vendors.
- The RER Solutions-Rocket Loans-Rapid Finance team was engaged to implement this proven technology solution, and it was never within this team's purview to track employees or hours related to implementing this solution. We were not engaged as consultants, but rather as a team to configure and implement a technology solution to assist the SBA-ODA in dealing with this national emergency.
- As such, you will note from the invoices submitted, neither Rapid Finance nor Rocket Loans tracked the hours by employee. Any attempt to itemize the work performed to create this technology solution would require a breakdown of nearly a million hours contributed by hundreds of employees and consultants over the previous 9+ years.
- Our ability to deliver on this engagement in such an expedited fashion to meet the growing national emergency was only possible due to the pre-existing relationships with RER Solutions, Rocket Loans, and Rapid Finance. Without these companies' coordination, there would be no solution to address the SBA-ODA's need to provide significant emergency EIDL relief as a result of the COVID-19 pandemic.
- The initial pricing related to Task Order 2 was established under the pre-existing IDIQ (from 2018) that was competitively bid and selected by the SBA-ODA after thorough evaluation. This established the market value of individual loan recommendations. The initial price related to COVID-19 support was kept the same as the original task order but included a significant increase in the scope of services.
- As the CARES Act was enacted, new pricing was established. The new pricing was established at $66.67 for each loan recommendation. This represented a substantial decrease from the original fair market price, despite a substantial expansion of scope - including a new online application intake, data validation and verification, implementation of numerous fraud/activity alerts, integration to numerous third-party service providers, custom workflows, and the need to interface with eTran.
- Unprecedented volumes of unanticipated EIDL applications continued to require ongoing support of the application and the need for RER Solutions to continue to work with the Contract Office.

[3] https://www.sba.gov/sites/default/files/2020-10/SBA%20OIG%20Report%2021-02.pdf

Each stage of ongoing negotiations resulted in continued reductions in per transaction costs, and an agreement to cap costs at $750M.

- Nearly all revenue approaching the cap has been invoiced and ongoing expenses will be incurred to provide additional enhancements and system support through June 2021.

As of October 19, 2020, based on the total units funded, the net cost of each funded advance/loan is **$79.84** [$750,000,000 / 9,393,626]. Based on total funds distributed, the cost represented as a percentage is **0.35%** [$750,000,000 / $211,994,805,796]. By comparison, SBA pays lenders fees for the PPP program at a rate of 5% for loans not exceeding $350,000. The cost to originate the same volume of loans via the approved lenders in the PPP program would have been: **$ 10,599,740,290** [$211,994,805,796 * 5%] - a difference of **($ 9,849,740,290)** [$750,000,000 - $10,599,740,290].

Rocket Loans and Rapid Finance are both recognized within their respective industries as strong FinTech leaders, and if not for supporting the SBA-ODA's EIDL program directly, both organizations would likely have entered the PPP program as direct lenders, as did many of our respective competitors. Those efforts may very well have better served our actual businesses, but we are tremendously proud of the fact that we could present and subsequently execute on a solution that was configured within an incredibly short timeframe to provide the best option to the SBA to meet unprecedented demand for small business relief as a result of the national emergency resulting from the COVID-19 pandemic.

Confidentiality

Please note that this letter is labeled "Confidential." The letter contains sensitive commercial information related to Rocket Loans current and/or future commercial operations. We request that this information be treated as confidential and protected from disclosure in accordance with all applicable laws and regulations, and that prior to any disclosure you provide us with notice and an opportunity to seek protection.

Thank you again for the opportunity to provide information to the Committees on this important matter.

Please reach out to me, Colin Darke, General Counsel of Rocket Loans at [redacted]@rocketloans.com, or you can reach out to Chrissi Johnson, Vice President of Federal Policy and External Affairs, at [redacted]@RockCentralDetroit.com.

Best regards,

[redacted]

Colin Darke

General Counsel, Rocket Loans

/enclosures