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SBA Disaster Loan Limits: Policy Options and Considerations

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Summary

The Small Business Administration (SBA) Disaster Loan Program provides disaster loans to eligible households and businesses to help them rebuild and recover after a disaster. SBA disaster loans include (1) Personal Property Disaster Loans, (2) Real Property Disaster Loans, (3) Business Physical Disaster Loans, and (4) Economic Injury Disaster Loans (EIDL). As described in this report, each type of loan has a maximum limit that has changed over time.

- **Personal Property Disaster Loans** provide creditworthy homeowners or renters located in a declared disaster area with up to \$40,000 to repair or replace personal property owned by the survivor;
- **Real Property Disaster Loans** provide creditworthy homeowners located in a declared disaster area with up to \$200,000 to repair or restore the homeowner's primary residence to its pre-disaster condition;
- **Business Physical Disaster Loans** provide businesses located in a declared disaster area with up to \$2 million to repair or replace damaged physical property including machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance; and
- **EIDLs** provide businesses located in a declared disaster area with up to \$2 million to help meet financial obligations and operating expenses that could have been met had the disaster not occurred. EIDL loan proceeds can only be used for working capital necessary to enable the business or organization to alleviate the specific economic injury and to resume normal operations. Loan amounts for EIDLs are based on actual economic injury and financial needs, regardless of whether the business suffered any property damage.

The maximum amount that can be provided for a disaster loan, or disaster loan limit, was first established in SBA regulations in 1968. In 1980, Congress began establishing disaster loan limits in statute, followed by SBA regulation updates. Historically, limits for business disaster loans in SBA regulations have been for the same amount as set in statute, whereas limits on home disaster loans in SBA regulations have been for a lesser amount than set in statute. SBA is authorized to establish loan limits lower in regulation than in statute because the statute establishes a ceiling for disaster loans, but not a floor. In 2008, Congress increased the disaster loan limit in statute to \$2 million; SBA only revised the business loan limits in regulation but not the home loan limit. Consequently, limits on disaster home loans (\$40,000 for personal property disaster loans and \$200,000 for real property disaster loans) have not changed since 1994, when SBA last adjusted disaster loan limits in federal regulation.

It could be argued that disaster loan limits, particularly those for home disaster loans, should be increased to account for inflation. A \$200,000 home disaster loan in 1994 is worth about \$105,000 in 2022 dollars and a \$2 million business disaster loan in 2008 is worth about \$1.6 million in 2022 dollars. It could also be argued that home disaster loan limits should more accurately reflect current home prices because some homes may be completely destroyed by a disaster. For example, the Federal Reserve Bank of St. Louis indicates that, in the first quarter of 2022, the median sales price of a house sold in the United States was \$428,700.

An opposing argument is that disaster assistance—even in the form of a government loan—is intended to supplement, not replace, private insurance. As a result, it could be argued that increasing disaster loan limits would induce moral hazard.

This report provides an overview of the regulatory and statutory history of SBA disaster loan limits followed by policy options that include information about inflation, construction costs, and median home values and home price trends. This report also includes brief descriptions of SBA disaster loan categories.

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Introduction

Since 1953, the Small Business Administration (SBA) Disaster Loan Program has provided disaster loans to eligible households and businesses to help them rebuild and recover after a disaster. Disaster loans for individuals and households (known collectively as home disaster loans) fall into two categories: (1) Personal Property Disaster Loans and (2) Real Property Disaster Loans. Disaster loans for businesses (known collectively as business disaster loans) also fall into two categories: (1) Business Physical Disaster Loans, and (2) Economic Injury Disaster Loans (EIDL).

Through the years, Congress has established disaster loan limits (or caps) in statute establishing a maximum amount of money that can be borrowed through these programs for any one disaster. Historically, businesses have been eligible for the full amount set in statute whereas individuals and households have been eligible for a lesser amount set in federal regulation by SBA. This is presumably because the costs associated with rebuilding a home are less than a business. Smaller loan amounts may help the SBA provide more loans to individuals and households if there are budgetary limitations for these programs.¹ The SBA Administrator is authorized to set the limit at a lower rate because the statutory language establishes a ceiling for disaster loans but does not establish a floor.²

The current maximum amount available to individuals and households for home disaster loans was set in regulation by the SBA Administrator in 1994. They are (1) \$40,000 for Personal Property Disaster Loans; and (2) \$200,000 for Real Property Disaster Loans. The current maximum amount available for Business Physical Disaster Loans and EIDLs is \$2 million, the same amount that was set in statute in 2008 (see **Figure 1**).³

For small business borrowers that are considered major employers and designated as a Major Source of Employment (MSE), the SBA may, under specified circumstances, exceed the \$2 million loan limit to avoid substantial unemployment in a disaster area. P.L. 110-246 included a provision granting the SBA Administrator this waiver authority.⁴ The SBA has granted waivers for eligible MSEs in the past. For example, in FY2018, the SBA approved seven (out of 826)

¹ For more information on SBA disaster loan funding, see CRS Insight IN11433, *Supplemental Appropriations: SBA Disaster Loan Account*, by Bruce R. Lindsay et al.

² P.L. 110-246 specifies that the amount provided to borrow “may not exceed” \$2 million.

³ Established in P.L. 110-246, Food, Conservation, and Energy Act of 2008.

⁴ 15 U.S.C. §636.

Any business may be eligible for Major Source of Employment (MSE) status if, at the time the disaster commences, it has one or more locations in the disaster area that, individually or in the aggregate, employed 10% or more of the entire work force within the commuting area of a geographically identifiable community, no larger than a county, provided that the commuting area does not extend more than 50 miles from such community; or employed 5% or more of the work force in an industry within the disaster area and, if the concern is a nonmanufacturing concern, employed no fewer than 50 employees in the disaster area or, if the concern is a manufacturing concern, employed no fewer than 150 employees in the disaster area; or employed no fewer than 250 employees within the disaster area. In addition, the loan applicant must have used all funds from its own resources and all available credit elsewhere to alleviate the physical damage and/or economic injury sustained. Furthermore, SBA will consider a waiver of the legislative limit only to the extent that loan assistance in excess of \$2,000,000 is necessary after the applicant, its affiliates, and its principals use business and personal assets and credit to the greatest extent possible without incurring undue hardship. See U.S. Small Business Administration (SBA), Office of Disaster Assistance, “Disaster Assistance Program SOP 50 30 9,” pp. 105-107, at <https://www.sba.gov/document/sop-50-30-9-disaster-assistance-program>.

applications for disaster loans exceeding \$2 million (the largest was \$2,226,800).⁵ A similar waiver authority is not provided for the individuals and households programs.

It could be argued that the maximum loan amounts are outdated due to normal inflation and increased housing and construction costs. Further, the costs of housing items such as furniture, appliances, and vehicles have increased since 1994. If this is the case, an SBA disaster loan may not be sufficient for some households and businesses to fully recover from a disaster. Others could argue that disaster assistance—even in the form of a government loan—is intended to supplement, not replace, private insurance. As a result, it could be argued that increasing disaster loan limits would induce moral hazard (incentivizing individuals to purchase less insurance). Still others might oppose increasing disaster loan limits for fiscal reasons, given that higher limits would increase federal spending.

This report provides an overview of the historical developments of disaster loan limits, followed by policy options related to disaster loan limits. To help contextualize disaster loan limits, this report includes narratives about inflation, construction costs, and median home values and prices. A description of SBA disaster loan categories is located in the **Appendix** of this report.

Historical Developments

SBA disaster loan limits were first introduced in 1957 through SBA notices published in the *Federal Register* and presented in SBA’s Administrative Manual. For example, on July 20, 1957, SBA announced that it would not provide disaster loans exceeding \$100,000.⁶ Previously, the disaster loan amount was determined on an individual basis, taking into account the circumstances of the applicant and the disaster. A search of the *Federal Register* indicates that SBA limited disaster loans to no more than \$350,000 in 1965.⁷

SBA disaster loan limits first appeared in the *Code of Federal Regulations* (C.F.R.) in 1968. Prior to that, the C.F.R. indicated that “there is no statutory limitation on the amount of a disaster loan”⁸ and, as mentioned, SBA announced its disaster loan limits through notices published in the *Federal Register*. In this 1968 C.F.R. reference, SBA revised paragraph (a) of 13 C.F.R. §123.6, in part, by setting limits on business disaster loans at \$100,000 for any one disaster (except for an additional amount to refinance any prior SBA disaster loan), personal property loans at \$10,000, and real property loans at \$20,000.⁹ In 1970, the SBA increased the limit for business disaster loans to \$500,000 and the limit for real property loans to \$50,000. The SBA did not change the limit for personal property loans (\$10,000).¹⁰ The SBA did not provide a rationale for establishing the 1968 and 1970 disaster loan limits, or why those particular dollar amounts were selected.

⁵ U.S. Small Business Administration (SBA), “Disaster Loan Data: Disaster Loan FY18,” <https://data.sba.gov/dataset/disaster-loan-data>. Not all approved disaster loan applicants accept the loan.

⁶ SBA, “Small Business Administration: Delegation Relating to Financial Assistance Including Disaster Loans, Procurement and Technical Assistance, and Administration,” 22 *Federal Register* 5811, July 20, 1957.

⁷ SBA, “Small Business Administration: Delegation of Authority to Conduct Program Activities in the Regional Offices,” 30 *Federal Register* 3340, March 11, 1965.

⁸ See for an example 13 C.F.R. §123.6, 1967 Edition.

⁹ SBA, “Title 13—Business Credit and Assistance, Part 120—Loan Policy,” 33 *Federal Register* 7622, May 23, 1968.

¹⁰ SBA, “Business Credit and Assistance, Part 120—Loan Policy,” 35 *Federal Register* 16170, October 15, 1970.

In 1980, disaster loan limits were first placed in statute (P.L. 96-302).¹¹ Section 119(a) of P.L. 96-302 amended Section 7(c) of the Small Business Act by adding a new paragraph:

Provided further, that no loan under subsection (b)(1) shall be made, either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis, if the total amount outstanding and committed to the borrower under such subsection would exceed \$500,000 for each disaster, unless an applicant constitutes a major source of employment in an area suffering a disaster, in which case the Administration, in its discretion, may waive the \$500,000 limitation.¹²

Congress did not provide a rationale for placing the limit in statute, or why \$500,000 was selected as the limit.¹³

It appears that businesses—not individuals and households—became eligible for the \$500,000 limit established in P.L. 96-302. Instead, individuals and households continued to be eligible for the maximum amount established in the 1970 revised federal regulation: \$50,000 for real property disaster loans, and \$10,000 for personal property loans.¹⁴

Starting in the 1980s, SBA commonly made businesses eligible for the full amount established in statute and individuals and households eligible for a lesser amount by regulation. The Small Business Act authorizes SBA to set limits for home loans in regulation so long as they do not exceed limits established in statute by Congress. Under the Small Business Act, “no loan[s] ... shall be made ... [that] exceed \$500,000.” Thus, home disaster loans remained capped at the amount established in 1970 despite the statutory loan limit increase in 1980 (P.L. 96-302).

In 1984, SBA increased the limits for real property disaster loans to \$100,000 and personal property loans to \$20,000 in federal regulation. SBA disaster loan limits for business disaster loans remained at the maximum amount established in P.L. 96-302 (\$500,000).

In 1993, without specific explanation, Congress tripled the limit on disaster loans in statute (P.L. 103-75) from \$500,000 to \$1.5 million.¹⁵

Following the Northridge earthquake in California in 1994, SBA increased personal property disaster loans from \$20,000 to \$40,000 and real property disaster loans from \$100,000 to \$200,000 in regulation.¹⁶ According to SBA, the maximum loan amount was increased because previous loan amounts were insufficient to meet the needs of “homeowners and renters confronted by the effects of physical disasters by virtue of the impact of economic inflation.”¹⁷ SBA further stated that the previous maximum loan amounts were:

inadequate to compensate many disaster victims for the costs associated with rebuilding, replacing and repairing residential, real property and household effects such as clothing,

¹¹ P.L. 96-302, An Act to Provide Authorizations for the Small Business Administration, and for Other Purposes.

¹² It is unclear if the SBA Administrator has ever waived the \$500,000 limitation. CRS could not locate a waiver of this limitation.

¹³ Congress has not made distinctions between loan types each time it established limits.

¹⁴ SBA, “Business Credit and Assistance, Part 120—Loan Policy,” 35 *Federal Register* 16170, October 15, 1970.

¹⁵ P.L. 103-75, Emergency Supplemental Appropriations for Relief from the Major, Widespread Flooding in the Midwest Act of 1993.

¹⁶ 13 C.F.R. §123.105. According to a report by the University of California at Berkeley, repairs following the Northridge earthquake costed approximately \$13 billion. See Kathleen Scalise, *Damage Claims Skyrocket from Northridge Earthquake, Finds New UC Berkeley Report*, University of California at Berkeley, October 1, 1996, <https://www.berkeley.edu/news/media/releases/96legacy/north.html>.

¹⁷ SBA, “Disaster-Physical Disaster and Economic Injury Loans,” 59 *Federal Register* 6214, February 10, 1994.

furniture and appliances which have been lost or damaged as a result of a physical disaster. Moreover, in the aftermath of disasters, especially large catastrophes, construction costs often increase sharply.¹⁸

Generally, regulatory changes are made after issuing a public notice. However, in this instance, SBA stated that the new maximum loan amount was established without public notice in an effort to meet immediate disaster loan demand caused by the earthquake. According to SBA, 13 C.F.R. §123.1(b):

authorizes emergency changes in the regulations governing its disaster assistance program, and 5 U.S.C. 553(b)(B) which permits publication of regulations in final form without notice of comment when an agency finds that good cause exists for publication in final form on an emergency basis, and that notice and comment is impracticable, unnecessary or contrary to the public interest. In this regard, the public interest in seeing to it that the new limitations are effective as to the recent California earthquake disaster makes the utilization of notice and comment rulemaking impracticable.¹⁹

In 2008, Section 12078 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) amended the Small Business Act to make the disaster assistance program more accessible to disaster victims, including by raising the statutory loan limit for disaster loans from \$1.5 million to \$2 million and authorizing the SBA Administrator to “increase the aggregate loan amount ... for loans relating to a disaster to a level established by the Administrator, based on appropriate economic indicators for the region in which that disaster occurred.”²⁰ While SBA revised the C.F.R. to make businesses eligible for the full amount, SBA did not revise disaster loan limits for home disaster loans in regulation. Consequently, the limits for home disaster loans are the same as those established in 1994 by regulation (\$40,000 for personal property disaster loans and \$200,000 for real property disaster loans). Section 12078 of the Food, Conservation, and Energy Act of 2008 was the most recent adjustment to disaster loan limits in statute. **Figure 1** provides a list of regulatory and legislative disaster loan limit developments.

In May 2020, SBA lowered the maximum loan amount for Economic Injury Disaster Loans (EIDL) for Coronavirus Disease 2019 (COVID-19) relief to \$150,000 due to unprecedented demand for limited loan resources.²¹ The maximum loan amount was raised again as the SBA Disaster Loan Account was replenished with supplemental funding (see **Table 2**). In March 2021, SBA announced an increase in the maximum amount for COVID-19 EIDL relief from \$150,000 to \$500,000.²² In September 2021, SBA raised the maximum amount to \$2 million.²³

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ A search of government documents including hearings, bill reports, and notices in the *Federal Register* failed to identify instances of the SBA Administrator increasing the aggregate amount based on economic indicators. Nor did it identify the rationale for why the statutory loan limit was increased to \$2 million, or why that particular amount was selected.

²¹ SBA, Office of Inspector General, *Inspection of the Small Business Administration’s Initial Response to the Coronavirus Pandemic*, October 28, 2020, p. 10, https://www.sba.gov/sites/default/files/2020-10/SBA_OIG_Report_21-02.pdf#page=15. According to the report, SBA “approved and disbursed more loans for COVID-19 relief than for all other disasters combined in the agency’s history.” See page 3 of the report.

²² SBA, *SBA to Increase Lending Limit for COVID-19 Economic Injury Disaster Loans*, March 24, 2021, <https://www.sba.gov/article/2021/mar/24/sba-increase-lending-limit-covid-19-economic-injury-disaster-loans>.

²³ SBA, *SBA Administrator Guzman Enhances COVID Economic Injury Disaster Loan Program to Aid Small Businesses Facing Challenges from Delta Variant*, September 9, 2021, <https://www.sba.gov/article/2021/sep/09/sba-administrator-guzman-enhances-covid-economic-injury-disaster-loan-program-aid-small-businesses>.

Figure I. Regulatory and Statutory History of Disaster Loan Limits

Year	Authority	Disaster Loan Limits		
		Business	Personal Property	Real Property
1968	13 CFR 123.6	\$100,000	\$20,000	\$10,000
1970	13 CFR 123.5	\$500,000	\$10,000	\$50,000
1980	P.L. 96-302	\$500,000		
1984	13 CFR 123.25		\$20,000	\$100,000
1993	P.L. 103-75	\$1,500,000		
1994	13 CFR 123.25		\$40,000	\$200,000
2008	P.L. 110-246	\$2,000,000		
Current Limit		\$2,000,000	\$40,000	\$200,000

Source: Based on CRS interpretation of regulatory and statutory adjustments to disaster loan limits.

Table I. Supplemental Appropriations: SBA Disaster Loan Account
FY2020-FY2022

Public Law Number, Division, and Bill Title	Appropriation	Purpose
FY2020		
P.L. 116-123, Division A Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020	\$20,000,000	P.L. 116-123 appropriated \$20 million to carry out administrative expenses associated with the SBA Disaster Loan Program.
P.L. 116-136, Division B CARES Act	\$10,562,000,000	P.L. 116-136 appropriated \$10 billion for Emergency EIDL Grants and \$562 million to support EIDL.
P.L. 116-139, Division B Paycheck Protection Program and Health Care Enhancement Act	\$60,000,000,000	P.L. 116-139 appropriated \$10 billion for Emergency EIDL Grants, and \$50 billion to support EIDL.
FY2021		
P.L. 116-260, Division N ^a Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act	\$20,000,000,000	P.L. 116-260 appropriated \$20 billion for Targeted EIDL Grants, of which \$20,000,000 shall be made available to the Inspector General of the Small Business Administration to prevent waste, fraud, and abuse.
P.L. 117-2 American Rescue Plan Act of 2021	\$15,460,000,000	P.L. 117-2 appropriated \$10 billion for Targeted EIDL Advance Grants; \$5 billion for Emergency EIDL Grants; and \$460 million for the disaster loan account, of which \$70 million was for disaster loan credit subsidies and \$390 million was for disaster loan administrative expenses.

Public Law Number, Division, and Bill Title	Appropriation	Purpose
FY2022^b		
P.L. 117-43, Division B Extending Government Funding and Delivering Emergency Assistance Act	\$1,189,100,000	P.L. 117-43 appropriated \$1.1891 billion for the disaster loan account. Up to \$620 million may be transferred to and merged with “Salaries and Expenses” for administrative expenses to carry out the disaster loan program.

Source: Based on appropriations laws.

Note: EIDL refers to economic injury disaster loan.

- a. P.L. 116-260, Division E, the Financial Services and General Government Appropriations Act, 2021, also appropriated \$168,075,000 for FY2021 regular appropriations to the SBA disaster loan program account.
- b. P.L. 117-58, the Infrastructure Investment and Jobs Act, rescinded \$36.929 billion in SBA unobligated balances, including \$17.578 billion from funds provided by P.L. 116-260 for the Targeted EIDL Advance grant program; and \$13.5 billion from funds provided by P.L. 116-139 for the Disaster Loans Program Account for EIDL loan credit subsidies.

Contextualizing SBA Disaster Loan Limits

One challenging aspect of establishing disaster loan limits is the lack of consensus on a model or formula for determining disaster recovery rebuilding and repair costs. Establishing an appropriate disaster loan limit is difficult for a variety of reasons, including (1) demolition, labor, construction, and material costs vary by region and fluctuate over time; (2) variation between states and regions with respect to median home costs and prices, building permits, and codes; and (3) “normal” reconstruction costs may be of limited value to establish disaster reconstruction costs because disasters can deplete labor and/or material in an area, which may lead to increased labor and material costs.

An additional consideration associated with developing disaster loan limits is whether the current loan limits are restrictive to individuals and households residing in areas with higher property prices and values.

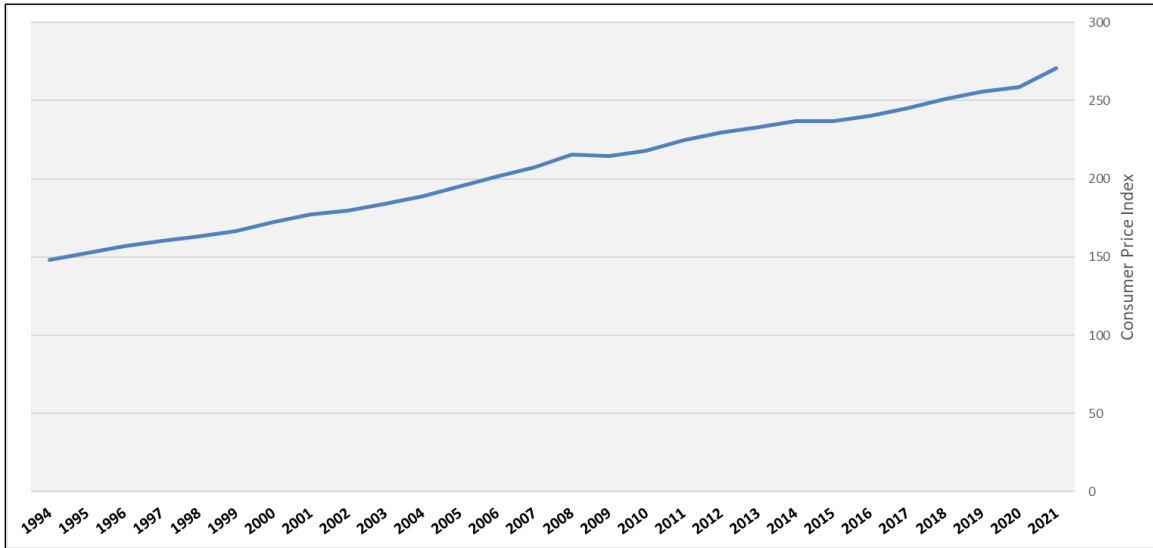
The following sections help frame these issues by examining a range of factors Congress might consider in evaluating disaster loan limits.

Inflation

Inflation, or the general rise in prices of goods and services in the economy, is an important indicator of purchasing power over time or the value of a dollar. One tool used to measure inflation, the Consumer Price Index (CPI), covers prices for consumer goods and services typically purchased by households, and is often used to adjust household incomes for inflation.

The graph in **Figure 2** shows the CPI from 1994, when personal and real property disaster loan limits were last updated, to 2021. The CPI grew from about 148 in 1994 to just over 270 in 2021 (note that the values fluctuate from month to month), which can be expressed as a growth rate of 82%. In 2008, when the business disaster loan limit was last revised, the CPI was 215, representing 26% growth from 2008 to 2021.

Figure 2. Consumer Price Index Change
1994-2021



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, <https://www.bls.gov/news.release/cpi.t01.htm>; historical data accessed through U.S. Department of Agriculture (USDA), <https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/technical/econ/prices/>.

Notes: Data represent annual averages of monthly values.

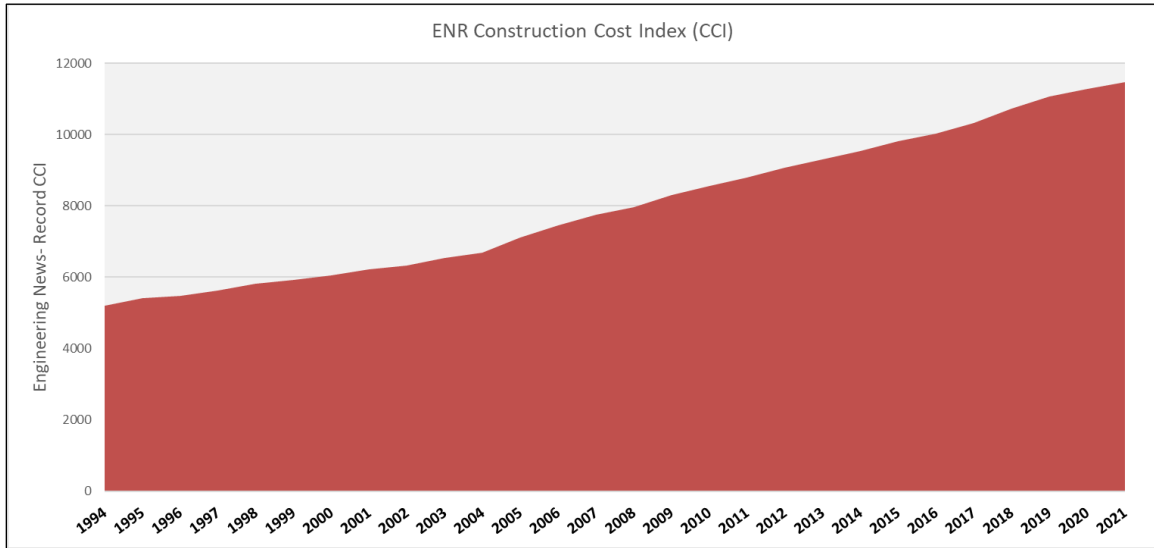
Construction Costs

The graph below (**Figure 3**) shows how construction costs have risen since 1994, based on a well-known construction cost index (CCI) used by the construction industry to estimate project costs and prepare bids. The index takes into account the costs of both construction materials and labor, which vary by market (geographic area) and type of construction (e.g., commercial or residential building; wood-frame or steel-frame structure).²⁴

According to the index, construction cost increases began to accelerate in 2004, with the largest year-to-year increases occurring during the years leading up to the 2008 financial crisis. From 1994 to 2021, the CCI grew by 120%, and from 2008 to 2021, it grew by 44%.

²⁴ The CCI is published by the Engineering News-Record and is based on data from 20 cities, including the following: Atlanta, GA; Baltimore, MD; Birmingham, AL; Boston, MA; Chicago, IL; Cincinnati, OH; Cleveland, OH; Dallas, TX; Denver, CO; Detroit, MI; Kansas City, MO; Los Angeles, CA; Minneapolis, MN; New Orleans, LA; New York, NY; Philadelphia, PA; Pittsburgh, PA; San Francisco, CA; Seattle, WA; St. Louis, MO.

Figure 3. U.S. Construction Cost Change
1994-2021



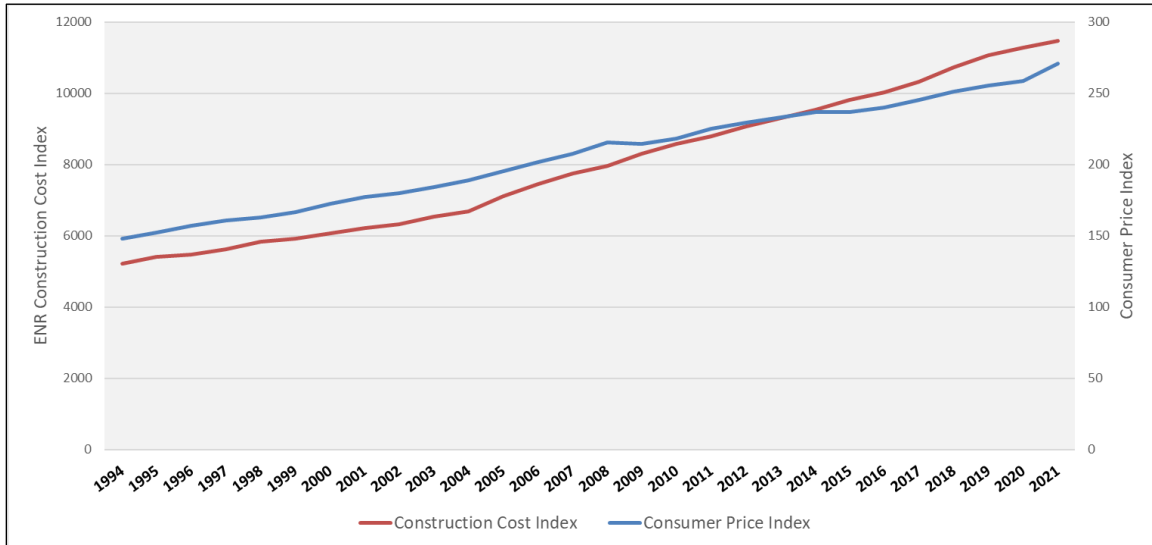
Source: Engineering News-Record (ENR), Construction Cost Index History, https://www.enr.com/economics/historical_indices; originally accessed through U.S. Department of Agriculture (USDA), <https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/technical/econ/prices/>.

Notes: Data represent annual averages of monthly values.

The data provided in **Figure 3** may not be analogous to reconstruction costs after a disaster. As mentioned, disasters potentially stress the availability of labor, local resources, and materials which may increase reconstruction costs after a disaster takes place.

The graph in **Figure 4** plots the CPI along with the CCI, to show the difference between the rise of the cost of a general basket of goods and services and construction costs. In 2013, the CCI eclipsed the CPI and has remained higher.

Figure 4. Consumer Price and Construction Cost Comparison
1994-2021



Source: Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers, <https://www.bls.gov/news.release/cpi.t01.htm>; historical data accessed through U.S. Department of Agriculture (USDA); Engineering News-Record (ENR), Construction Cost Index History, https://www.enr.com/economics/historical_indices.

Notes: Data represent annual averages of monthly values.

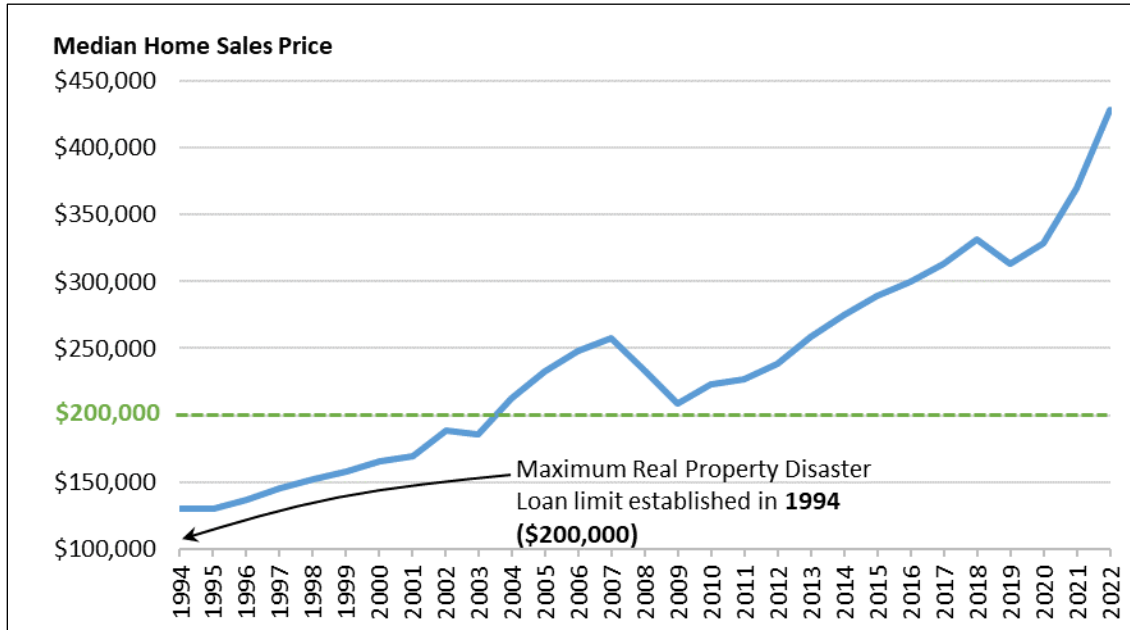
Median Home Prices and Values

The following sections examine home prices and values, including how they have changed over time.

Home Prices

The Federal Reserve Bank of St. Louis indicates that the median sales price for a used home in the United States was \$130,000 in 1994. Since then, median home sales prices have steadily increased, exceeding \$200,000 in 2004 (at \$212,700) and reaching \$428,700 in 2022 (see **Figure 5**).

Figure 5. Median Sales Price for used Homes in the United States
1994-2022



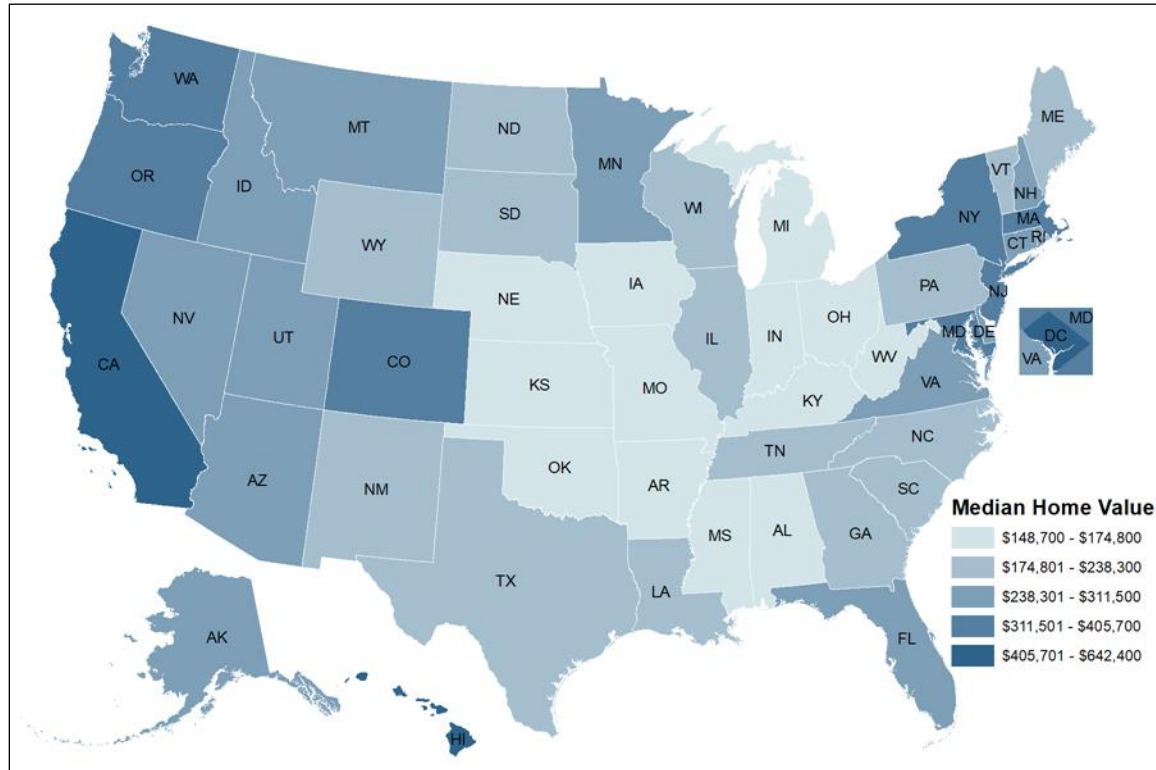
Source: Derived from Federal Reserve Bank of St. Louis, *Median Sales Price of Houses Sold for the United States*, <https://fred.stlouisfed.org/series/MSPUS#0>.

Note: The current SBA Real Property Disaster Loan limit is \$200,000.

Home Values

Some datasets assess homes by value rather than price. Value is generally considered what homes with similar features and in similar condition might be sold for in a given area. Based on U.S. Census Bureau data, the median home value in 2020 was \$251,700. Roughly half of homes in the United States (including Washington, DC) had values above the \$200,000 range (see **Figure 6**).

Figure 6. Financial Characteristics for Housing Units with a Mortgage, 2020
Median Home Values



Source: U.S. Census Bureau, S2506, *Financial Characteristics for Housing Units with a Mortgage, 2020*, https://data.census.gov/cedsci/map?q=S2506&g=0100000US%240400000&tid=ACSST5Y2020.S2506&cid=S2506_C01_001E&layer=VT_2020_040_00_PP_DI&mode=thematic&loc=44.8284,-114.5317,z3.2393.

Some may object to the use of home prices and values to determine appropriate home disaster loan limits. Home sale prices, they might argue, cannot be compared to repair and rebuilding costs. For one, not all home disaster loans are for completely destroyed homes. Rather, most are for making structural repairs (such as replacing a roof). Similarly, some may question the use of median home values as a tool for determining loan caps. Homes in California and Washington, DC, for example, have higher values, in part, because of their location. According to this line of thinking, property values remain high in those areas even if the homes are destroyed. Disaster loans, it could be argued, should be used to repair and replace the structure, not replace the property. It could be further argued that people living in high-cost areas have higher incomes and thus are more capable of purchasing insurance.

Others might argue that federal disaster assistance is intended to supplement, not replace private insurance. It could be further argued that increasing disaster loan limits induces moral hazard if homeowners believe the limit is high enough to make them whole again after the incident. If that is the case, some homeowners may decide not to not to insure (or decide to underinsure) their property.²⁵

²⁵ For example, according to the Senate Task Force on Funding Disaster Relief “after the Midwest flood of 1993, the Interagency Floodplain Management Review Committee reported that ... [the] provision of ... federal disaster assistance to those without insurance [created the] perception with many floodplain residents that purchase of flood insurance is not a worthwhile investment.” There is, however, some debate on the topic of insurance. The Senate Task Force on

Variations in State and County Home Costs

Throughout the United States, there are counties that have median home costs that are significantly higher than the rest of the nation. For example, a major disaster declaration issued for the Camp Fire in California made home disaster loans available to individuals and households residing in Butte, Los Angeles, and Ventura counties.²⁶ The median home sale prices for those counties in 2020 were well above the national median at \$304,700, \$615,500, and \$609,200 respectively.²⁷ In another example, in some Florida counties with a history of hurricane damages—Collier and Monroe counties—also have median sales prices well above the national median (\$366,600 and \$588,100 in 2020, respectively).²⁸

Personal Property, Home Furnishings, and Vehicles

SBA Personal Property Loans provide creditworthy homeowners or renters located in a declared disaster area with up to \$40,000 to repair or replace personal property owned by the survivor. Personal Property may include furniture, clothing, and vehicles. The \$40,000 limit for SBA Personal Property Loans was last adjusted in regulation in 1994.

According to economic data published by the Federal Reserve Bank of St. Louis, from 2010 to 2022, prices for household furnishings and supplies increased 4.2% (see **Figure 7**).²⁹ From 1994 to 2022 new vehicle prices increased 26.78%, and used cars and trucks increased 54.14% (see **Figure 8**). The data may suggest to some that the \$40,000 disaster loan limit may not presently be sufficient to replace vehicles, home furnishings, and supplies. Others may disagree and argue that, while some household costs have increased, others have decreased. According to the Federal Reserve Bank of St. Louis:

It is natural to complain that some prices increase. But ... prices can also decrease. While there are obvious seasonal fluctuations for some goods (say, agricultural products), other goods have been declining year over year, contributing to a general price inflation that is lower than one may think. [A] prime example is anything related to information technology.... IT devices with a given set of characteristics have continuously fallen in price. Or, to put it differently, a device of the same price year after year will provide much better performance; its price by “unit of performance” must therefore be declining.³⁰

Funding Disaster Relief also stated that “at least one study concluded that expecting ... federal disaster assistance did not significantly influence individuals’ decisions about purchasing flood insurance.” U.S. Congress, Senate, *Federal Disaster Assistance*, Report of the Senate Task Force on Funding Disaster Relief, 104th Cong., March 15, 104-4 (Washington: GPO, 1995), p. 64.

²⁶ Federal Emergency Management Agency, *California Wildfires (DR-4407)*, November 30, 2018, <https://www.fema.gov/disaster/4407>.

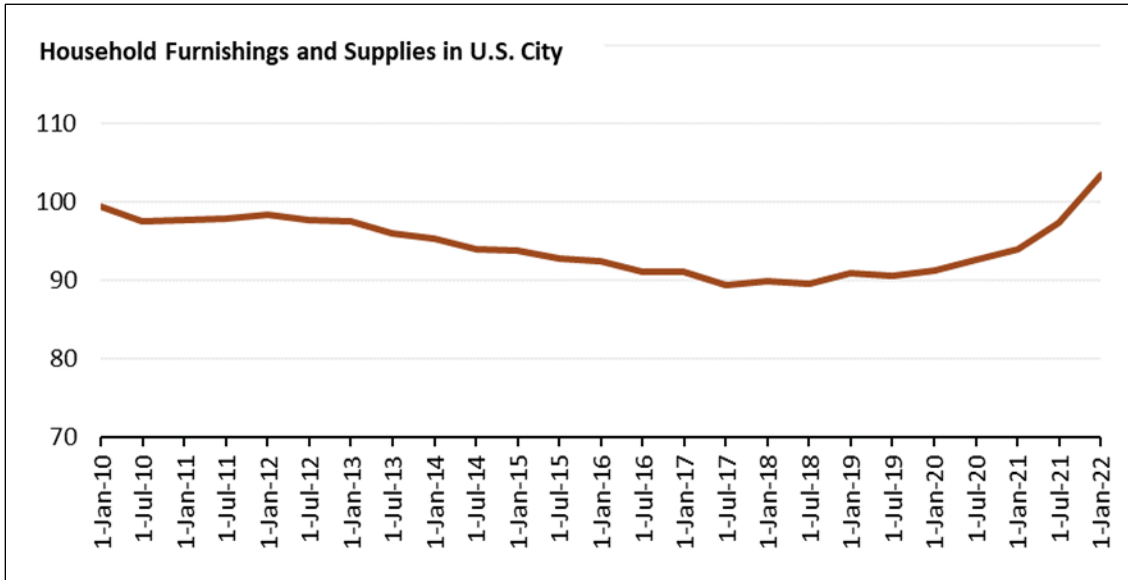
²⁷ United States Census Bureau, Quick Facts, <https://www.census.gov/quickfacts/fact/table/venturacountycalifornia,losangelescountycalifornia,buttecountycalifornia/PST120221>.

²⁸ United States Census Bureau, Quick Facts, <https://www.census.gov/quickfacts/fact/table/colliercountyflorida/PST045221>, and <https://www.census.gov/quickfacts/fact/table/monroecountyflorida/PST045221>.

²⁹ Authoritative data on household furnishings and supplies from 1994 to 2010 could not be located.

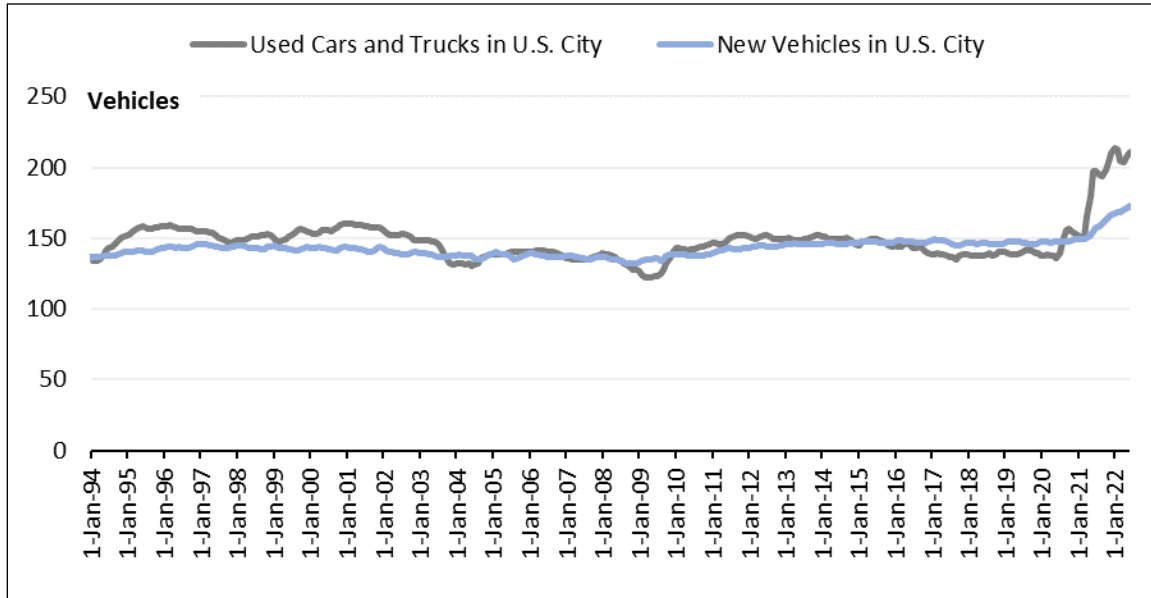
³⁰ Federal Reserve Bank of St. Louis, *Not All Prices Increase*, October 2, 2014, <https://fredblog.stlouisfed.org/2014/10/not-all-prices-increase/>.

Figure 7. Consumer Price Index for All Urban Consumers: Household Furnishings and Supplies in the United States



Source: Federal Reserve Bank of St. Louis, *Consumer Price Index for All Urban Consumers: Household Furnishings and Supplies in U.S. City Average*, July 13, 2022, <https://fred.stlouisfed.org/series/CUUS0000SAH31>.

Figure 8. Consumer Price Index for All Urban Consumers: New Vehicles; Used Cars and Trucks in the United States



Source: Federal Reserve Bank of St. Louis, *Consumer Price Index for All Urban Consumers: Used Cars and Trucks in U.S. City Average*, July 2022, <https://fred.stlouisfed.org/series/CUSR0000SETA02>; and Federal Reserve Bank of St. Louis, *Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average*, July 2022, <https://fred.stlouisfed.org/series/CUUR0000SETA01>.

Policy Options

The following sections describe policy options that Congress may consider when contemplating disaster limits, including formulas and the establishment of disaster limit floors.

Disaster Limit Waivers

As mentioned previously, P.L. 110-246 authorized SBA to waive the \$2 million loan limit for business disaster loans and provide a higher loan amount under specified circumstances. Congress could consider a similar waiver for disaster home loans. For example, SBA could waive the limit for home disaster loans if the region, or nature of the disaster's circumstances, make a full recovery cost prohibitive.

Disaster Loan Limit Formulas

Rather than periodically adjusting disaster loan limits, Congress could require SBA to set disaster loan limits by formula, incorporating measures such as inflation, economic indicators, and/or home values and prices. SBA applies a similar formula-based model to determine disaster loan interest rates for individuals and households that are unable to secure a disaster loan through a private lender:

the rate prescribed by the [SBA] Administration but not more than one-half the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loan plus an additional charge of not to exceed 1 per centum per annum as determined by the Administrator, and adjusted to the nearest one-eighth of 1 per centum, but not to exceed 4 per centum per annum.³¹

A disaster loan limit formula could be applied nationwide, or regionally for areas with higher housing costs.

Disaster Loan Limit Floors

As described in “Historical Developments,” SBA lowered disaster limits for COVID-19 EIDL assistance in 2020 from \$2 million per loan to \$150,000 to meet COVID-19 EIDL demand. According to the SBA Office of Inspector General, SBA “approved and disbursed more loans for COVID-19 relief than for all other disasters combined in the agency’s history.”³² As mentioned previously, the Small Business Act authorizes SBA to set disaster loan limits so long as they do not exceed the loan limits established in statute. The absence of a statutory floor allowed SBA to temporarily reduce the loan limit so that it could continue to provide COVID-19 EIDL assistance to struggling businesses. While the SBA’s decision to lower loan limits may have helped the agency meet high levels of demand, some were concerned the amount was insufficient to meet the economic recovery needs of businesses.³³

³¹ 15 U.S.C. §636(d)(5)(A).

³² SBA, Office of Inspector General, *Inspection of the Small Business Administration’s Initial Response to the Coronavirus Pandemic*, October 28, 2020, p. 3, https://www.sba.gov/sites/default/files/2020-10/SBA_OIG_Report_21-02.pdf#page=15.

³³ For example, see *Cardin, Schumer & Shaheen Call on SBA to Reverse Policy That Limits Economic Disaster Loan Program (EIDL) Loans to \$150k*, <https://www.sbc.senate.gov/public/index.cfm/2020/5/cardin-schumer-shaheen-call>

It may be argued that the factors that led to SBA's decision to lower the loan limit were extraordinary and unprecedented. Historically SBA has never had to lower limits to meet loan demand for natural disasters such as hurricanes or floods. Still, there may now be some concern that SBA might reduce loan limits in the future if the SBA Disaster Loan Account runs low on funding.³⁴ If so, some homeowners and/or businesses may not be able to make a full recovery from the incident. Against this concern it might be argued that SBA should be allowed to lower loan limits to meet loan demand if needed. According to this line of thought, the lower limit would allow SBA to provide as many disaster loans as possible, which is seen as better than denying loan applications on the basis of inadequate funding. To summarize, on the one hand, establishing floors would prevent SBA from lowering limits to an amount Congress believes is too low. On the other hand, floors could limit the number of loans that can be serviced if loan demand is high.

Regional Cost Variations

As previously mentioned, home values vary by region. If home value variation is a concern, Congress could establish a home disaster loan limit higher than the national median, or consider the use of a formula that adjusts for this variation. For example, the disaster loan limits could be periodically adjusted based on state or regional home costs or values, construction costs, or some other information. The adjustment could be analogous to the formula set in statute to determine SBA disaster loan interest rates. Under the Small Business Act, interest rates for home disaster loans for homeowners unable to secure credit elsewhere reflect:

the rate prescribed by the Administration but not more than one-half the rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans plus an additional charge of not to exceed 1 per centum per annum as determined by the Administrator, and adjusted to the nearest one-eighth of 1 per centum but not to exceed 8 per centum per annum.³⁵

Essentially, the SBA Administrator is authorized to base disaster loan interest rates on current, comparable average market yields so long as they do not exceed the interest rate ceilings set in statute. Similarly, the SBA Administrator could be required to establish disaster loan limits based on a formula based on housing costs or values such as those in **Figure 5** or **Figure 6**, inflation, or some other metric. The disaster limit formula could be applied nationwide or reflect regional costs.

If variations in costs and values within a state are a concern, then the adjustment could be based on data that provides greater county-level detail such as Fannie Mae and Freddie Mac maximum loan limits for mortgages.³⁶ Doing so could benefit those living in areas with home values higher than the national median. For example, the major disaster declared for New York after Hurricane Sandy provided assistance for twelve counties.³⁷ As shown in **Figure 9**, if the Fannie Mae and

on-sba-to-reverse-policy-that-limits-economic-disaster-loan-program-eidl-loans-to-150k

³⁴ For more information on the SBA Disaster Loan Account, see CRS Insight IN11433, *Supplemental Appropriations: SBA Disaster Loan Account*, by Bruce R. Lindsay et al.

³⁵ 15 U.S.C. 636 (d)(4)(A)

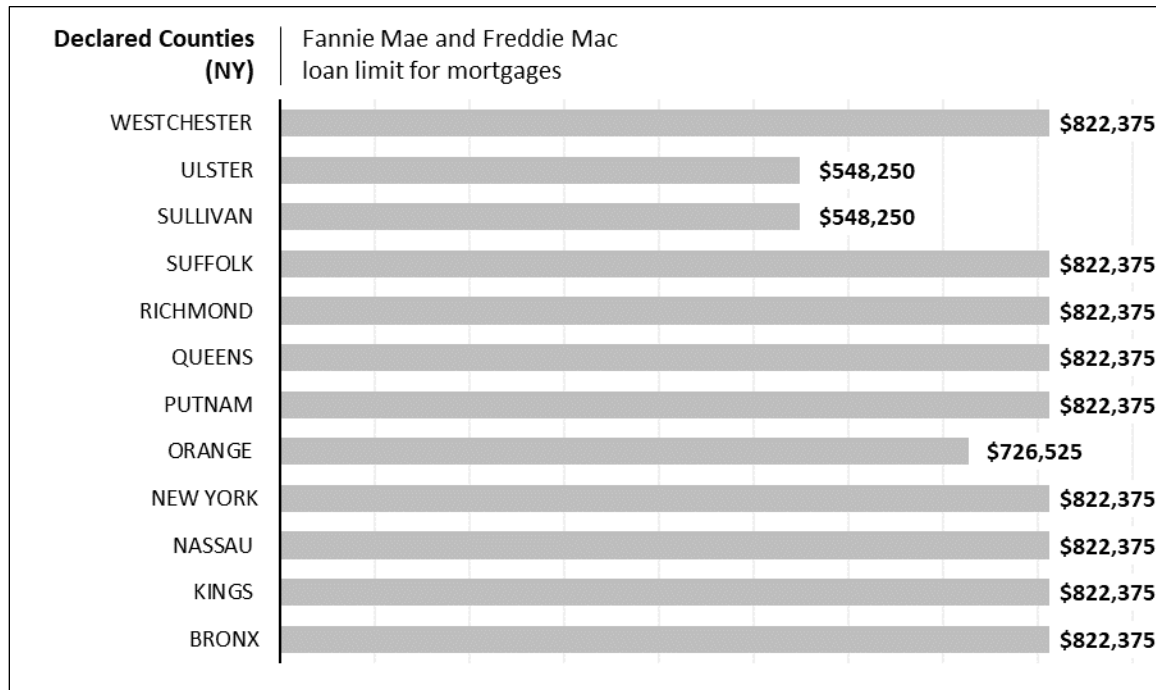
³⁶ Fannie Mae and Freddie Mac are restricted by law to purchasing single-family mortgages with origination balances below a specific amount, which are known as the "conforming loan limit." Loans above the conforming loan limit are known as "jumbo loans."

³⁷ Federal Emergency Management Agency, *New York Hurricane Sandy (DR-4085)*, November 19, 2012, <https://www.fema.gov/disaster/4085>. The declared counties were Bronx, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester.

Freddie Mac loan limit data accurately reflects home values, then homeowners in each county may struggle to rebuild and recover with a \$200,000 disaster home loan.

Figure 9. Hurricane Sandy

New York Hurricane Sandy Declared Counties: 2021 Fannie Mae and Freddie Mac Mortgage Loan Limits



Source: Federal Emergency Management Agency, New York Hurricane Sandy (DR-4085), November 19, 2012, <https://www.fema.gov/disaster/4085>; and Federal Housing Finance Agency, *FHFA Announces Conforming Loan Limits for 2021*, <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Announces-Conforming-Loan-Limits-for-2021.aspx>

Congress could require SBA to adjust home disaster loan limits periodically, or establish loan limits at the time of the declared disaster, as is the case with disaster loan interest rates.

Concluding Observations

SBA disaster loan limits have been placed in statute and created by SBA regulatory action. Historically, businesses have been eligible for the maximum amount set in statute whereas homeowners have been eligible for a lesser amount than has been set in statute. To some, this has been an effective approach to (1) supplement, as opposed to replace, private insurance, (2) avoid moral hazard, and (3) balance the desire to help disaster victims with the need for prudent federal spending.

Others may find increases in inflation, especially increases in median home values and prices, constitute a compelling reason to increase SBA disaster loan limits and to index those limits to inflation. They may be particularly concerned that housing costs in some areas of the nation exceed home disaster loan limits by a substantial margin. In their view, homeowners in those areas may be incapable of fully recovering because the loans cover too small a share of their repair and rebuilding costs. Similarly, the cost of replacing home items has increased since 1994. Consequently, limits on personal property loans do not have the same purchasing power to replace lost vehicles and furniture as they did in 1994.

Appendix. SBA Disaster Loan Categories

The following provides a brief overview of each SBA disaster loan category, including eligible recovery activities and loan terms.

Personal Property Disaster Loans

Personal Property Disaster Loans cover only uninsured or underinsured property and primary residences in a declared disaster area. Personal Property Disaster Loans can be used to repair or replace clothing, furniture, cars, or appliances damaged or destroyed in the disaster. Interest rate ceilings for Personal Property Disaster Loans are statutorily set at 8% per annum or 4% per annum if the applicant is unable to obtain credit elsewhere.³⁸ The loans can have maturities up to 30 years. The maximum loan amount for a Personal Property Disaster Loan is set in regulation at \$40,000.³⁹

Real Property Disaster Loans

Real Property Disaster Loans provide creditworthy homeowners located in a declared disaster area with up to \$200,000 to repair or restore the homeowner's primary residence to its pre-disaster condition.⁴⁰ The loans may not be used to upgrade a home or build additions to the home, unless the upgrade or addition is required by city or county building codes. Secondary homes or vacation properties are not eligible for Real Property Disaster Loans.⁴¹ Limits for Real Property Disaster Loans are set in regulation.⁴²

Business Physical Disaster Loans

Business Physical Disaster Loans are available to almost any business located in a declared disaster area.⁴³ Business Physical Disaster Loans can be used to repair or replace damaged physical property including machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance. Interest rates for Business Physical Disaster Loans cannot exceed 8% per annum or 4% per annum if the business cannot obtain credit elsewhere.⁴⁴ Business Physical Disaster Loans can have maturities up to 30 years. The maximum loan amount provided for a Business Physical Disaster Loan is \$2 million.⁴⁵

Economic Injury Disaster Loans

EIDLs are available to businesses located in a declared disaster area that have suffered substantial economic injury, are unable to obtain credit elsewhere, and are defined as small by SBA size regulations.⁴⁶ Small agricultural cooperatives and most private and nonprofit organizations that

³⁸ 15 U.S.C. 636(d)(5)(B) and 15 USC 636(d)(5)(A).

³⁹ 13 C.F.R. §123.105(a)(1).

⁴⁰ Only uninsured or otherwise uncompensated disaster losses are eligible for loan assistance.

⁴¹ Qualified rental properties may be eligible for assistance under SBA's business loan program.

⁴² 13 C.F.R. §123.105(a)(2).

⁴³ See C.F.R. §§123.200 and 123.201 for eligibility requirements.

⁴⁴ 15 U.S.C. §636(d)(4)(C) and 15 USC §636(d)(5)(C).

⁴⁵ 15 U.S.C. §636(b)(8)(A).

⁴⁶ Size standards vary according to many factors including industry type, average firm size, and start-up costs and entry barriers. For more information on SBA business size requirements see CRS Report R40860, *Small Business Size*

have suffered substantial economic injury as the result of a declared disaster are also eligible for EIDLs. The loans are designed to help businesses meet financial obligations and operating expenses that could have been met had the disaster not occurred. The loan proceeds can only be used for working capital necessary to enable the business or organization to alleviate the specific economic injury and to resume normal operations. The interest rate ceilings for EIDL are statutorily set at 4% per annum or less and the loans can have maturities up to 30 years.⁴⁷ The maximum loan amount for EIDL is \$2 million.⁴⁸

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Standards: A Historical Analysis of Contemporary Issues, by Robert Jay Dilger, R. Corinne Blackford, and Anthony A. Cilluffo. See also 13 C.F.R. §123.300 for eligibility requirements.

⁴⁷ The 4% interest rate ceiling is established in regulation: 13 C.F.R. §123.302.

⁴⁸ 15 USC §636(b)(8)(A).

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