Congressional Research Service
Informing the legislative debate since 1914

SBA COVID-19 EIDL Financial Relief: Policy Options and Considerations

Updated November 12, 2024

Congressional Research Service
https://crsreports.congress.gov
R47509

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

SBA COVID-19 EIDL Financial Relief: Policy Options and Considerations

SUMMARY

R47509

November 12, 2024

Bruce R. Lindsay, Coordinator
Specialist in American National Government

Anthony A. Cilluffo
Analyst in Public Finance

Darryl E. Getter
Specialist in Financial Economics

Adam G. Levin
Analyst in Economic Development Policy

Daniela E. Lacalle
Research Assistant

Congress took several actions to provide financial relief to individuals, businesses, and nonprofits after the onset of the COVID-19 pandemic, including passing the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) in March 2020. The CARES Act made numerous changes to the Small Business Administrations's (SBA) programs, including expanding eligibility for Economic Injury Disaster Loans (EIDLs). SBA EIDLs are a type of disaster loan made directly to businesses and nonprofit organizations to cover operating expenses including fixed debts, payroll, accounts payable, and other bills that cannot be paid because of the disaster's economic impact. The CARES Act also authorized advance payments known as *Emergency EIDL Grants* (also referred to as "advances"). In contrast to EIDLs, which must be repaid in full, Emergency EIDL Grants did not require repayment. SBA's Emergency EIDL Grants were limited to $1,000 per employee, up to a maximum of $10,000.

Later that same year, Congress passed P.L. 116-260, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Division N, Title III of the Consolidated Appropriations Act of 2021, hereinafter the Economic Aid Act), enacted on December 27, 2020, establishing the Targeted Economic Injury Disaster Loan Advance (grant) program. The program provided a $10,000 advance payment to borrowers located in low-income communities suffering a revenue loss greater than 30% over specified time periods and had no more than 300 employees. By statute, SBA was required to provide first priority in awarding the grants to eligible borrowers located in low-income communities that had already received an Emergency EIDL advance payment below the $10,000 maximum, and second priority to eligible first-time applicants located in low-income communities.

The demand for SBA COVID EIDLs, including the Emergency EIDL Grants and the Targeted EIDLs, was significant. According to a report issued by the SBA Office of Inspector General, SBA received 27.7 million applications for SBA COVID EIDLs by December 31, 2021. On January 1, 2022, SBA stopped accepting applications for both new SBA COVID EIDLs and Emergency EIDL Grants. As of May 6, 2022, SBA's COVID EIDL funds had been exhausted and SBA stopped accepting SBA COVID EIDL increase requests or requests for reconsideration. SBA closed the online SBA COVID EIDL application portal on May 16, 2022. In total, SBA approved over 3.9 million COVID EIDLs totaling over $378.4 billion; disbursed 5,781,390 Emergency EIDL Grants totaling $20 billion; disbursed 601,058 Targeted EIDL Advance payment grants totaling over $5.2 billion; and disbursed 453,417 Supplemental Targeted EIDL Advance payment grants totaling over $2.3 billion.

SBA deferred repayment for all SBA COVID EIDLs approved in calendar years 2020-2022 to 30 months from the date of the note. As the SBA COVID EIDL program pivots to the repayment phase, indications that some borrowers are struggling to pay off their loans have surfaced. For example, through the end of the first half of FY2024 (March 31, 2024), SBA had charged-off (formally recognizing that additional repayment and recoveries are unlikely) $78.8 billion in SBA COVID EIDLs.

Current congressional discussions about the need for additional financial relief for those borrowers include policy options such as (1) reduced interest rates, (2) loan deferments without accrued interest, (3) grant assistance, and (4) loan forgiveness. Proponents of providing financial relief to SBA COVID EIDL borrowers might argue that these financial relief options could help struggling businesses specifically, and help the national economy broadly, because failing businesses can have rippling effects on other businesses, industries, and sectors. Opponents of these options might argue that providing financial relief to SBA COVID EIDL borrowers could promote moral hazard and create repetitive financial relief for a single incident. They may further argue that these financial relief options deviate from the historical approach of providing businesses with disaster *loans* rather than grants, the latter of which increases cost to the taxpayer. They may also argue that the financial relief options, such as those summarized in this report, could compromise SBA's ability to fund disaster loans for current and future disasters at current levels of program funding.

Contents

Figures

Tables

Appendixes

Contacts

Introduction

Since 1953, the U.S. Small Business Administration (SBA) has administered several types of direct disaster loans to small businesses, nonprofit organizations, homeowners, and renters. The SBA Disaster Loan Program currently comprises four major lending programs:

1. Real Property Disaster Loans for households;
2. Personal Property Disaster Loans for households;
3. Physical Disaster Business Loans for businesses of all sizes, often called Business Physical Disaster loans; and
4. Economic Injury Disaster Loans (EIDLs) for small businesses and private nonprofit organizations.[1]

Congressional interest in the SBA Disaster Loan Programs has increased in recent years, primarily because small businesses are viewed as a means to stimulate economic activity and create jobs. Congressional interest became especially acute as the COVID-19 pandemic caused widespread adverse economic impact, which included domestic productivity losses, supply chain disruptions, major labor dislocations, and significant financial pressure on both businesses and households. Congress passed several bills to address the pandemic's adverse impacts, including P.L. 116-136, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020.

The CARES Act greatly expanded eligibility for SBA EIDLs, to include, for the first time, specified types of nonprofit organizations.[2] Eligible small businesses and nonprofit organizations suffering economic hardship could use SBA EIDLs for operating expenses such as employee salaries, lease or mortgage payments, and utility payments. SBA COVID EIDLs were offered at an interest rate of 3.75% for small businesses and 2.75% for nonprofit organizations.[3] The loan terms were up to 30 years for repayment.

SBA COVID EIDL

Loan Terms: 30 years for repayment

Nonprofit Organization Interest Rate: 2.75%

Small Business Interest Rate: 3.75%

SBA Emergency EIDL Grant: $1,000 per employee, up to a maximum of $10,000

The CARES Act also authorized the SBA Administrator to provide Emergency EIDL Grants up to $10,000 as an "advance" payment in the amount requested within three days after receiving an EIDL application from an eligible entity. Applicants could use the advances while loans were being processed and were not required to repay the Emergency EIDL Grant—even if the applicant was subsequently denied an SBA COVID EIDL. Due to anticipated demand, SBA limited the Emergency EIDL Grants to $1,000 per employee, up to a maximum of $10,000.

Later that year, P.L. 116-260, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Division N, Title III of the Consolidated Appropriations Act of 2021, hereinafter the Economic Aid Act), enacted on December 27, 2020, established the Targeted Economic Injury

[1] For more information about SBA disaster loans, see CRS Report R44412, *SBA Disaster Loan Program: Frequently Asked Questions*, by Bruce R. Lindsay.

[2] The expanded eligibility critieria authorized by Congress only applied only to SBA COVID EIDL. The eligibilty requirements for other disasters were not changed. For more information about the steps SBA took to meet pandemic assistance demand, see CRS Report R47694, *SBA as a Vehicle for Crisis Relief: Lessons from the COVID-19 Pandemic*, coordinated by Adam G. Levin.

[3] For more information about SBA disaster loan interest rates, see CRS Report R46963, *SBA Disaster Loan Interest Rates: Overview and Policy Options*, by Bruce R. Lindsay et al.

Disaster Loan Advance (grant) program. The Targeted EIDL program was similar to Emergency EIDL Grants, but was only available to businesses in certain areas and had other restrictions on its use. The Targeted EIDL program provided a $10,000 advance payment to borrowers located in low-income communities that had suffered a revenue loss greater than 30% over specified time periods and had no more than 300 employees. SBA was required to provide first priority in awarding the grants to eligible borrowers located in low-income communities that had already received an Emergency EIDL advance payment below the $10,000 maximum, and second priority to eligible first-time applicants located in low-income communities.

On January 1, 2022, SBA stopped accepting applications for new SBA COVID EIDLs, and as of May 6, 2022, SBA had exhausted COVID EIDL funds and stopped accepting requests for COVID EIDL increases. SBA then pivoted to receiving SBA COVID EIDL payments. Though SBA offered COVID EIDL deferments to provide borrowers financial relief, some businesses and nonprofit organizations are still struggling to make SBA COVID EIDL payments. Congressional concern about SBA COVID EIDL hardship has prompted some to investigate potential policies that would provide financial relief to businesses and nonprofit organizations (hereinafter "applicants" or "borrowers") including lower interest rates, loan forgiveness, and extended repayment deferrals that do not accrue interest.

This report begins with an overview of SBA EIDL and SBA COVID EIDL maximum loan amounts. The report then discusses potential indications of SBA COVID EIDL hardship and describes SBA COVID EIDL deferral policies. The report then discusses potential policy options that may provide financial relief to SBA COVID EIDL borrowers. The report concludes with a discussion about the potential policy implications associated with financial relief policy options.

SBA EIDL Overview

SBA EIDL is a long-standing disaster loan program authorized in 1953 by Section 7(b) of the Small Business Act. SBA EIDLs are direct loans (meaning they are not provided by third party lenders) that provide up to $2 million for operating expenses including fixed debts, payroll, accounts payable, and other bills that cannot be paid because of the disaster's impact.[4] SBA EIDLs help eligible small businesses, small agricultural cooperatives, small businesses engaged in aquaculture, and most types of nonprofit organizations meet their financial obligations and operating expenses that cannot be met as a direct result of the disaster.[5]

SBA EIDL amounts are based on actual economic injury and financial needs, regardless of whether the business or eligible nonprofit suffered any property damage. If an applicant is a major source of employment, SBA may waive the $2 million statutory loan limit.[6] In addition, EIDL proceeds cannot be used to refinance long-term debt, expand facilities, pay dividends or bonuses, or provide for relocation expenses.[7]

[4] Due to unprecedented demand, in March 2020, SBA lowered the maximum COVID-19 EIDL amount from $2 million to $500,000, and, on May 3, 2020, reduced it to $150,000. On April 6, 2021, SBA increased the maximum COVID-19 EIDL to $500,000. On September 9, 2021, SBA increased the EIDL borrowing limit to $2 million from $500,000 (effective October 8, 2021).

[5] U.S. Small Business Administration, "Fact Sheet—Economic Injury Disaster Loans, California Declaration #16332," March 19, 2020, at https://disasterloan.sba.gov/ela/Declarations/DeclarationDetails?declNumber=3485&direct=false (hereinafter cited as SBA, "Fact Sheet").

[6] Ibid.

[7] For the full list of ineligible uses of EIDL loan proceeds, see SBA, "Disaster Assistance Program SOP," pp. 75-76.

To be eligible for an EIDL, applicants must have a credit history acceptable to SBA, the ability to repay the loan, and pledge collateral for EIDLs greater than $25,000. SBA collateralizes real estate or other assets when available, but it will not deny a loan for lack of collateral.[8]

SBA EIDL interest rates are determined by formulas established in law and are fixed for the life of the loan. EIDL interest rate ceilings are statutorily set at 4% per annum. EIDL applicants are not eligible if SBA determines that the applicant has credit available elsewhere.

SBA EIDL can have maturities up to 30 years. SBA determines an appropriate installment payment based on each borrower's financial condition, which, in turn, determines the loan term.[9] There are no prepayment penalties.

In response to the COVID-19 pandemic and an increase in demand for EIDL, the CARES Act addressed anticipated delays in EIDL application loan processing by authorizing the SBA Administrator to

- waive the "credit not available elsewhere" requirement;
- approve an applicant based solely on their credit score;
- waive any rules related to the personal guarantee on advances and loans of not more than $200,000; and
- waive the requirement that the applicant needs to be in business for the one-year period before the disaster declaration (except that no waiver may be made for a business that was not in operation on January 31, 2020).

SBA COVID EIDL Maximum Loan Amounts and Program Termination

As mentioned previously, the maximum loan amount provided for SBA EIDLs is $2 million. The maximum loan amount for SBA COVID EIDLs, however, fluctuated due to budgetary concerns. Some key changes to SBA COVID EIDL maximum loan amounts included:

- SBA reduced the maximum loan amount to $150,000 on May 3, 2020;
- SBA increased the maximum loan amount from $150,000 to $500,000 on March 24, 2021 (effective as of April 6, 2021);[10] and
- SBA increased the maximum loan amount from $500,000 to $2 million on September 9, 2021 (effective as of October 8, 2021).[11]

On January 1, 2022, SBA stopped accepting applications for new SBA COVID EIDL and Emergency EIDL Grants. As of May 6, 2022, SBA's COVID EIDL funds were exhausted and

[8] U.S. Small Business Administration, "Fact Sheet."

[9] Ibid.

[10] U.S. Small Business Administration, "SBA to Increase Lending Limit for COVID-19 Economic Injury Disaster Loans," March 24, 2021, at https://www.sba.gov/article/2021/mar/24/sba-increase-lending-limit-covid-19-economic-injury-disaster-loans.

[11] U.S. Small Business Administration, "SBA Administrator Guzman Enhances COVID Economic Injury Disaster Loan Program to Aid Small Businesses Facing Challenges from Delta Variant," September 9, 2021, at https://www.sba.gov/article/2021/sep/09/sba-administrator-guzman-enhances-covid-economic-injury-disaster-loan-program-aid-small-businesses; and SBA, "SBA Administrator Guzman Announces Key Policy Change: Existing COVID Economic Injury Disaster Loan Program Borrowers to Receive an Additional Deferment," March 15, 2022, at https://www.sba.gov/article/2022/mar/15/sba-administrator-guzman-announces-key-policy-change-existing-covid-economic-injury-disaster-loan.

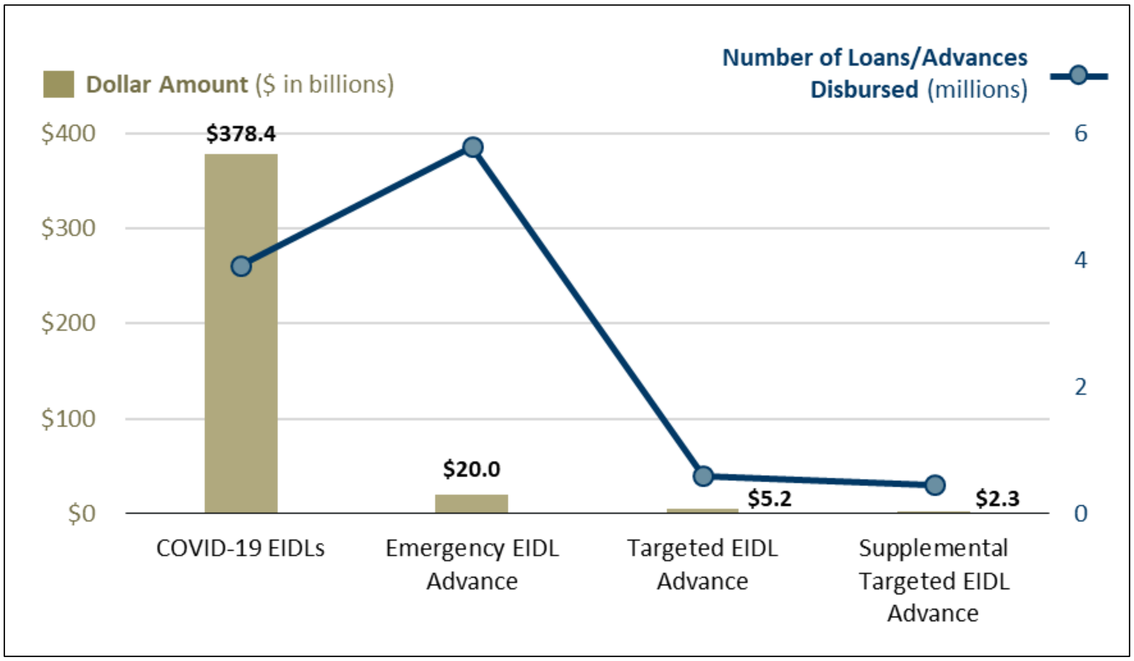
SBA stopped accepting SBA COVID EIDL loan increase requests. SBA closed the online SBA COVID EIDL application portal on May 16, 2022.

SBA COVID EIDL Amounts and Related Grant Activity

As mentioned previously, demand for SBA COVID EIDL, including Emergency EIDL Grants and Targeted EIDLS, was signifigant and unprecedented. SBA approved over 3.9 million EIDLs totaling over $378.4 billion; disbursed 5,781,390 EIDL Grants totaling $20 billion; disbursed 601,058 Targeted EIDL Advance payment (grants) totaling over $5.2 billion; and disbursed 453,417 Supplemental Targeted EIDL Advance payment (grants) totaling over $2.3 billion.[12]

Figure 1 presents the total number of loans or grants/advances provided by SBA, as well as the total amount of money provided by SBA for each type of loan or grant/advance.

Figure 1. COVID-19 EIDLs and Related Grants, Dollar Amount and Number Disbursed



Source: U.S. Small Business Administration, "Disaster Assistance Update Nationwide SBA COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances, April 28, 2022 (figures as of April 27, 2022)," https://www.sba.gov/document/report-covid-19-eidl-reports-2022; SBA, "Disaster Assistance Updated (figures as of July 15, 2020)," https://www.sba.gov/sites/default/files/2021-02/EIDL%20COVID-19%20Advance%207.15.20-508.pdf.

[12] U.S. Small Business Administration, "Disaster Assistance Update Nationwide SBA COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances, April 28, 2022 (figures as of April 27, 2022)," https://www.sba.gov/document/report-covid-19-eidl-reports-2022 and SBA, "SBA Disaster Assistance Update EIDL Advance/COVID-19," https://www.sba.gov/document/report-covid-19-eidl-advance-reports-2020.

SBA COVID EIDL Hardship

Establishing the extent to which borrowers struggle to repay SBA COVID EIDLs is difficult and most reports of hardship have been anecdotal.[13] Nevertheless, one potential indicator of hardship is the reported SBA charge-off rate. SBA defines charge-off as "the process by which SBA recognizes a loss and removes the uncollectible loan account from its active receivable accounts."[14] This is a separate event from default—typically, a loan would be in default for some time before being charged-off. SBA COVID EIDLs may be considered "too young" to determine aggregate charge-offs because SBA COVID EIDLs were granted a series of deferals. Given that the the extended deferral period delayed many SBA COVID EIDL, estimating the loan charge-off rate for the program is challenging.

SBA COVID EIDL Payment Deferrments

SBA has offered deferrments to help businesses struggling to make SBA COVID EIDL payments. Under present law and regulations, the first payment on an SBA EIDL is normally due five months after disbursement. However, on March 23, 2020, SBA announced that it would provide additional time to businesses with regard to their first EIDL payment by deferring payments on existing disaster loans through December 31, 2020. SBA announced that this was "to help borrowers during this unprecedented time," and also announced that payments on new EIDLs would be deferred for one year (although interest would continue to accrue).[15]

On March 12, 2021, SBA extended the deferment period for all SBA COVID-19-related EIDL and other disaster loans until 2022. Specifically, all disaster loans made in calendar year 2020 had a first payment due date extended from 12 months to 24 months from the date of the note, and all disaster loans made in calendar year 2021 had a first payment due date extended from 12 months to 18 months from the date of the note.[16]

On September 9, 2021, SBA announced a further deferral of SBA COVID EIDL payments for 24 months after loan origination to help small businesses "get through the pandemic without having to worry about making ends meet."[17] Additionally, on March 15, 2022, SBA extended the deferral period for all COVID-19 EIDL approved in calendar years 2020-2022 to 30 months from the date of the note (interest continues to accrue).[18]

[13] There have been news reports that SBA COVID EIDL accrued interest is cost prohibitive to some businesses, and some business owners have complained that EIDL payments are not going toward the loan principal. See "'This is the last thing we need:' Millions of businesses hammered by the pandemic need to start paying back Covid loan," *CNN Business*, January 13, 2023.

[14] U.S. Small Business Administration, *SBA Charge Off Procedures Summary and Suggested Wrap-Up Report*, https://www.sba.gov/sites/default/files/bank_wrapup_report.pdf.

[15] U.S. Small Business Administration, "Carranza Implements Automatic Deferment on Existing SBA Disaster Loans Through End of 2020," March 23, 2020, https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/carranza-implements-automatic-deferment-existing-sba-disaster-loans-through-end-2020.

[16] U.S. Small Business Administration, "SBA Extends Deferment Period for all COVID-19 EIDL and Other Disaster Loans until 2022," March 12, 2021.

[17] U.S. Small Business Administration, "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.

[18] U.S. Small Business Administration, "SBA Administrator Guzman Announces Key Policy Change: Existing COVID Economic Injury Disaster Loan Program Borrowers to Receive an Additional Deferment," March 15, 2022, (continued...)

On May 7, 2024, SBA announced that the 30-month COVID-19 EIDL deferment period would not be extended.[19]

Further, on March 15, 2022, SBA extended the deferral period for all SBA COVID EIDLs approved in calendar years 2020-2022, to 30 months from the date of the note (interest continued to accrue).[20] For example, a 30-month deferral period for an SBA COVID EIDL issued in December 2022 would extend deferred payments through June 2025. Given that the the extended deferral period resulted in many SBA COVID EIDL repayment periods either not yet having started, or having only recently started, estimating the loan charge-off rate for the program is challenging.

SBA COVID EIDL Charge-Off Activity

There are some early indications of increasing SBA COVID EIDL charge-off activity. A charge-off is an administrative and accounting action that SBA takes when it formally removes a loan from its active portfolio. It is a recognition that additional payments and recoveries are unlikely, not cost effective, or legally uncollectible. **Table 1** shows the amount of unpaid principal balance (UPB) and charge-offs in the SBA COVID EIDL program from FY2022 through the end of the first half of FY2024. From the end of FY2022 to the end of FY2023, the overall UPB amount fell by $55.8 billion from all causes (including repayment, cancellation, charge-off, etc.). During that period, SBA charged-off $52.0 billion. Likewise, from the end of FY2023 to the end of the first half of FY2024, SBA COVID EIDL UPB fell by $28.3 billion from all causes. During that period, SBA charged-off $26.7 billion.[21] The UPB change and charge-off numbers are not directly comparable since the charge-off amount includes interest, while UPB does not. However, it is likely that charge-offs comprised a substantial portion of the UPB change.

Table 1. SBA COVID EIDL Unpaid Principal Balance and Charge-Offs

Fiscal Year	Unpaid Principal Balance at End of Period	Change in Unpaid Principal Balance	Charge-Offs During Period (Including Interest)
2022	$357,817,267,786	N/A	$198,192,908
2023	$301,970,283,775	$-55,846,984,011	$51,950,250,851
First Half of 2024	$273,711,794,937	$-28,258,488,838	$26,657,634,576

Source: Table created by CRS using data from Small Business Administration, "Small Business Administration Loan Program Performance," July 23, 2024, https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

Notes: Includes data as of March 31, 2024. Charge-off amounts include interest and are therefore not directly comparable with the change in unpaid principal balance (which does not include interest).

https://www.sba.gov/article/2022/mar/15/sba-administrator-guzman-announces-key-policy-change-existing-covid-economic-injury-disaster-loan.

[19] U.S. Small Business Administration, *Manage your EIDL*, May 7, 2024, https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/manage-your-eidl.

[20] U.S. Small Business Administration, "SBA Administrator Guzman Announces Key Policy Change: Existing COVID Economic Injury Disaster Loan Program Borrowers to Receive an Additional Deferment," March 15, 2022, https://www.sba.gov/article/2022/mar/15/sba-administrator-guzman-announces-key-policy-change-existing-covid-economic-injury-disaster-loan.

[21] All data in this paragraph are from Small Business Administration, "Small Business Administration Loan Program Performance," July 23, 2024, https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

SBA EIDLs may be subject to a higher charge-off rate than some other types of loans because EIDLs are only made to borrowers unable to get credit elsewhere. The charge-off rate for SBA business disaster loans (including physical disaster loans to repair and rebuild structures, as well as EIDLs) generally ranges from 1% to 9% depending on economic conditions. Unless the debt has been discharged in bankruptcy, borrowers who default are still responsible for repaying loans even if their business closes.

Credit Elsewhere

The Small Business Act defines the term "credit elsewhere" for disaster loan purposes as "the availability of credit on reasonable terms and conditions from non-Federal sources taking into consideration the prevailing rates and terms in the community in or near where the applicant business concern transacts business, or the applicant homeowner resides, for similar purposes and periods of time."

15 U.S.C. §632(h)(2)

Charge-offs generally do not change borrowers' loan repayment obligations, nor does it affect SBA's ability to collect on the loan. Indeed, post–charge-off recoveries are common and are often sought through Department of the Treasury (Treasury) programs such as Cross Servicing and the Treasury Offset Program.[22] Prior to 2024, SBA had declined to send SBA COVID EIDL loans of $100,000 or less to Treasury for collection.[23] However, SBA announced a major policy change in January 2024 that, stating that starting March 3, 2024, it would start sending SBA COVID EIDL loans in default to Treasury for increased collection efforts.[24]

Is Charge-Off a Form of Loan Forgiveness?

A charge-off is not a form of loan forgiveness. As SBA explains, an SBA loan being classified as "charged-off" "has no impact on an Obligor's liability for the Loan balance."[25] Going through a business loan default and charge-off is an unpleasant experience for the borrower. Before a loan in default is charged-off, it must be liquidated. In liquidiation, the lender recovers all available collateral and sells it (including personal assets, if used as collateral), as well as taking all other legally enforceable collection actions. It may be difficult for a business to continue operating after a default, especially if it used important business assets as collateral. SBA also refers delinquent government debts to Treasury's Cross Servicing program and Treasury Offset Program.[26] In these programs, Treasury can take all or a portion of many federal government payments (including income tax refunds, Social Security benefits payments, and federal contractor or employee payments) and apply it to the government debt. Additionally, the default would likely be reported on the borrower's personal credit report, making it harder for the borrower to access any credit for several years into the future. Finally, any debt that is ultimately cancelled as uncollectible is likely taxable income to the borrower.

None of this happens when a loan is forgiven. For example, in the SBA's Paycheck Protection Program (PPP), borrowers who used PPP loan proceeds for eligible expenses likely qualified for full forgiveness (see **Appendix A** for more information about PPP). If the borrower applied for and received full forgiveness, then SBA paid the

---

[22] Charge-off is an accounting action that removes the loan from SBA's active portfolio. SBA charges-off (removes) a loan from its active accounts when it believes that futher payments or collections are unlikely. SBA does this to fulfill its accounting obligation to present accurate financial accounts. Borrowers must repay the full amount of the loan regardless of whether it is charged-off or not. Separate authorities generally require agencies to pursue economical collection actions on seriously delinquent or defaulted debt, regardless of its charge-off status. For more on the Treasury programs, see CRS In Focus IF11671, *Overview of the Treasury Department's Federal Payment Levy and Treasury Offset Programs*, by Gary Guenther.

[23] U.S. Small Business Administration Office of the Inspector General, "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans," Report 23-16, September 29, 2023, https://www.sba.gov/document/report-23-16-ending-active-collections-delinquent-covid-19-economic-injury-disaster-loans.

[24] U.S. Small Business Administration, "Small Business Administration Announces Further Action to Help PPP and SBA COVID EIDL Borrowers," Press Release 24-01, January 5, 2024, https://www.sba.gov/article/2024/01/05/small-business-administration-announces-further-action-help-ppp-covid-eidl-borrowers.

[25] Small Business Administration, "7(a) Loan Servicing and Liquidation," SOP 50 57 3, August 1, 2023, p. 221, https://www.sba.gov/document/sop-50-57-7a-loan-servicing-liquidation.

[26] For more on the Treasury programs, see CRS In Focus IF11671, *Overview of the Treasury Department's Federal Payment Levy and Treasury Offset Programs*, by Gary Guenther.

lender the outstanding balance of the loan (principal and interest) and the borrower was released from needing to repay the loan. Additionally, the laws authorizing PPP provided that the loan forgiveness amount was not taxable income.

The increased post–charge-off recovery efforts may be starting to show an impact on amounts recovered by the government. Before SBA's policy change, during the *four fiscal years* from FY2020 to FY2023, SBA had recovered, generally through Treasury,[27] a total of $440.3 million on charged-off SBA COVID EIDLs (with nearly all of that in FY2023). In the *first half* of FY2024, after the policy change, SBA recovered $520.7 million on charged-off SBA COVID EIDLs.[28] Thus far, post–charge-off recoveries have been lower for SBA COVID EIDLs than for other SBA Disaster Loans. SBA has recovered $961.0 million post–charge-off on $78.8 *billion* in charged-off SBA COVID EIDLs (1%) from FY2020 through the first half of FY2024. In the SBA Disaster Loan program, SBA has recovered $553.6 million on $1.4 *billion* in charged-off disaster loans (39%) from FY2015 through the first half of FY2024.[29]

SBA Hardship Accommodation Plan

In addition to the SBA COVID EIDL deferments described above, SBA offers a Hardship Accommodation Plan for borrowers experiencing short-term financial challenges. The plan allows eligible borrowers to make reduced payments for six months. Interest on the loan continues to accrue, which may increase, or create, a balloon payment that is due at the end of the loan term. Borrowers are eligible to enroll in the Hardship Accommodation Plan beginning 60 calendar days before their first payment due date.[30] The loan terms for the Hardship Accommodation Plan are as follows:

- borrowers are required to pay at least 10% of their monthly payment amount for six months;
- during the Hardship Accommodation period, borrowers can voluntarily make larger payments;
- the regular monthly payment amount will resume and will be required after the six-month accommodation period ends; and
- borrowers may be able to renew the Hardship Accommodation Plan.[31]

In February 2024, SBA expanded the eligibility for the Hardship Accommodation Plan for borrowers who are struggling with loan payments, including borrowers who are not current on the

[27] The footnotes to "Table 7 – Post-Charge Off Recovery Amount by Program," state that "[p]ost-charge off recovery amount is typically defined as the dollar amount recovered via the Treasury Cross Servicing progam after a loan has been charged off, however not all these recoveries are due to Treasury efforts." U.S. Small Business Administration, "Small Business Administration Loan Program Performance," July 23, 2024, https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

[28] U.S. Small Business Administration, "Small Business Administration Loan Program Performance," July 23, 2024, https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

[29] CRS analyis of Table 5 and Table 7, U.S. Small Business Administration, "Small Business Administration Loan Program Performance," July 23, 2024, https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

[30] Ibid.

[31] Ibid.

loan, are already in default but have not been referred to Treasury for collection, and those that have previously participated in a Hardship Accommodation Plan.[32]

SBA COVID EIDL Financial Relief Policy Options

Congress may consider various policy options to provide SBA COVID EIDL borrowers financial relief including loan forgiveness, loan deferrments, and reduced interest rates. Congress may also consider establishing a grant program to help businesses that are having difficulty repaying their SBA COVID EIDL. Furthermore, Congress could consider whether all SBA COVID EIDL borrowers should be eligible for assistance, and it may also consider establishing certain eligibility requirements for financial relief.

These various approaches may have benefits, costs, and tradeoffs. For example, while providing blanket relief to all borrowers may be expedient, it could also provide relief to borrowers who are not struggling to repay their EIDL. Consequently, criteria could be developed to only target businesses in need of financial relief, but some businesses could default on their loan or shutter before getting the relief due to the time it would take to review each application and make relief determinations. Further, as disussed later, SBA relies on disaster loan repayments to help fund the Disaster Loan program. Relief policies could have a significant financial impact on the agency under its current funding model, particularly given the high volume of SBA COVID EIDLs.

Loan Forgiveness

Since it began providing disaster assistance to businesses in the 1930s, Congress, while expressing sympathy for struggling businesses, has limited federal disaster assistance to loans rather than grants. Generally, loans made by or guaranteed by SBA are expected to be fully repaid with interest. SBA's funding role is intended to assist borrowers where private financing is insufficient or unavailable, for example, due to the borrower being deemed too risky for private loans. As mentioned above, SBA business disaster assistance is usually limited to small businesses that cannot otherwise receive credit in the private market at reasonable terms and conditions.[33] Therefore, SBA disaster loans are considered a last resort for businesses seeking disaster assistance.

Disaster loan forgiveness has been rare. In the history of SBA disaster financing, there have been two cases of widespread forgiveness of loans to respond to a disaster: (1) disaster loans responding to Hurricane Betsy in 1965; and (2) the PPP responding to the COVID-19 pandemic.

SBA COVID EIDL Forgiveness Strategies

Loan forgiveness for SBA COVID EIDL could take many forms, including forgiveness of a set amount (as was offered after Hurricane Betsy), for a specified period of time (as with PPP), or a percentage of the loan. Additionally, instead of forgiving all SBA COVID EIDL, forgiveness could be provided for SBA COVID EIDLs of a certain amount. **Table 2** groups SBA COVID EIDLs into spending ranges (or thresholds) to illustrate the cost implications of forgiving SBA COVID EIDLs for certain amounts. For example, Congress could consider forgiving SBA COVID EIDLs of $100,000 or less. At that threshold, roughly 2.8 million SBA COVID EIDLs amounting to $76 billion would be forgiven. In another example, Congress could consider

[32] Ibid.

[33] For business loans, see 15 U.S.C. §636(a)(1)(A). For business disaster loans, see 15 U.S.C. §636(b)(2).

forgiving SBA EIDLs of $25,000 or less. At that thresehold, roughly 1.9 million SBA COVID EIDLs amounting to $20 billion would be forgiven (see **Table 2** and **Figure 2**).

It should be noted that some borrowers have already made loan payments. If Congress implements loan forgiveness, it may consider whether to only forgive the borrower's unpaid SBA COVID EIDL balance, or reimburse the borrower's principal and interest payments in addition to unpaid balances.

Table 2. SBA COVID EIDL

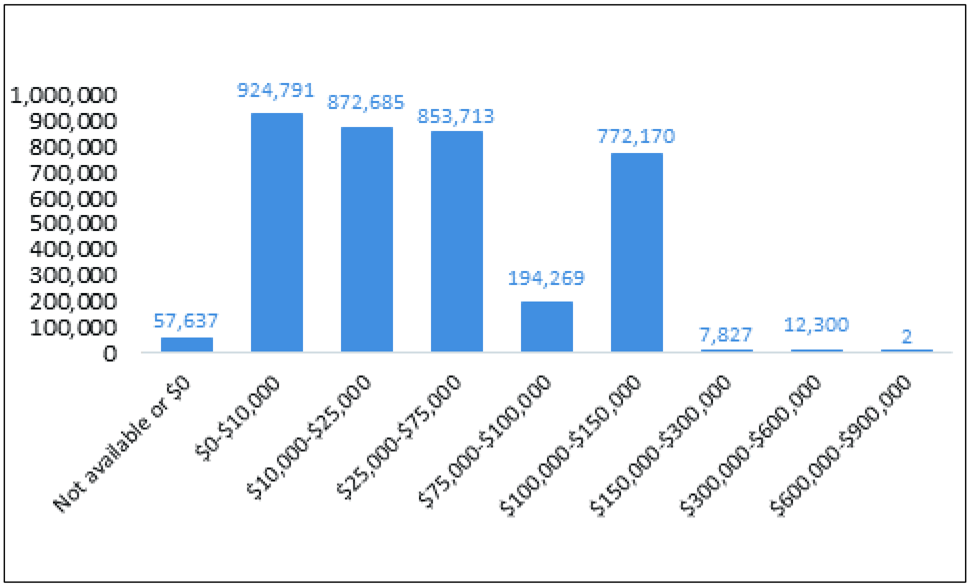
Number of SBA COVID EIDLs and Aggregate Dollar Amounts

Range	Number of EIDLs	Aggregate Dollar Amount Range
Unavailable or listed as $0	57,637	NA
$0-$10,000	924,791	$4,921,199,790
$10,000-$25,000	872,685	$15,530,882,941
$25,000-$75,000	853,713	$38,714,082,123
$75,000-$100,000	194,269	$17,148,880,245
$100,000-$150,000	772,170	$110,041,331,604
$150,000-$300,000	7,827	$1,685,204,941
$300,000-$600,000	12,300	$5,642,711,999
$600,000-$900,000	2	$1,613,900
Total	3,695,394	$193,685,907,543

Source: SBA, *COVID-19 EIDL*, COVID-19 Economic Injury Disaster Loans as of 12-01-20, https://data.sba.gov/dataset/covid-19-eidl. Data were accessed on August 20, 2024.

Notes: Loan counts are based on unique Federal Award Identification Numbers (FAINs) contained in the source data. FAINs with multiple entries were summed by CRS to create an overall loan amount, including 65,903 negative listings. After summation, CRS found one remaining negative entry attributed to a unique FAIN, with an amount of -$150,000. This entry is not factored in the totals listed above. All ranges are exclusive of the lower number, and inclusive of the higher number. Data were accessed on August 20, 2024. Data are COVID EIDLs as of December 1, 2020, and were last updated April 27, 2022.

Figure 2. Number of COVID EIDLs by Loan Size



Source: U.S. Small Business Administration, *COVID-19 EIDL*, COVID-19 Economic Injury Disaster Loans as of 12-01-20, https://data.sba.gov/dataset/covid-19-eidl. Data were accessed on August 20, 2024.

Note: All ranges are exclusive of the lower number, and inclusive of the higher number.

Congress may also consider establishing certain requirements for borrowers to be eligible for loan forgiveness. For example, borrowers could be required to take steps such as purchasing disruption insurance, or, similar to PPP, agreeing to retain employees on the payroll for a specified amount of time.

Implementing a loan forgiveness policy may be administratively challenging if SBA COVID EIDLs are sold to private investors. At various times since providing SBA COVID EIDLs, SBA has considered whether to sell all or a portion of the SBA COVID EIDL portfolio to private investors.[34] Since SBA COVID EIDLs are direct loans, SBA has high-quality, real-time information about the status and balance of each loan. SBA could use that information to implement either widespread or certain targeted forgiveness policies without additional information or action from borrowers.

An SBA COVID EIDL forgiveness process would likely differ if SBA did not own the loans. When SBA conducted disaster and business loan sales from August 1999 to August 2002,[35] SBA sold those loans outright—without any ongoing guarantee—and would not have ongoing information about the status of those loans or who currently owned them. This could make finding borrowers who are potentially eligible for forgiveness difficult. However, if these sales were to occur, whoever owned the loan at the time of forgiveness would have a strong incentive to help borrowers qualify and apply for forgiveness, since the key action in this case is a payment from SBA to the lender that extinguishes the debt for the borrower.

---

[34] U.S. Small Business Administration Office of Inspector General, "Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans," Management Advisory Report 23-16, September 29, 2023, pp. 7-8, https://www.sba.gov/sites/default/files/2023-09/SBA%20OIG%20Report%2023-16.pdf.

[35] For more information on these loan sales, see U.S. General Accounting Office, "Small Business Administration: Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain," GAO-03-87, January 2003, https://www.gao.gov/products/gao-03-87.

SBA COVID EIDL Deferments

As noted, SBA has administratively provided payment deferrals for SBA COVID EIDLs, allowing interest to accrue during the deferment. Congress could establish long-term SBA COVID EIDL deferrals, with or without accrued interest. For example, Congress could legislatively defer SBA COVID EIDL repayment for five years without accrued interest. A potential benefit of this policy option is that it provides borrowers time to resume regular operations before making loan payments. Additionally, it may be less burdensome to the SBA Disaster Loan Account than loan forgiveness because borrowers would eventually repay SBA COVID EIDL.

SBA COVID EIDL Interest Rates

SBA is not authorized to charge fees to disaster loan borrowers, and SBA's disaster loans are not underwritten to fully account for default risk. The program's interest rates are determined by statutory formulas that generally require SBA to charge below-market interest rates. As a result, the SBA Disaster Loan Program does not generate rates of return through loan principal and interest repayments that fully cover the program's cost. The program thus relies on supplemental appropriations to make up the difference.

As mentioned, organizations that qualify for SBA EIDL are unable to secure credit elsewhere. By law, the borrower's interest rate for EIDL is not to exceed 4% per annum.[36] SBA COVID EIDLs have an interest rate of 3.75% for small businesses and 2.75% for nonprofit organizations. Because the Small Business Act establishes a ceiling on EIDL interest rates, but not a floor, some may argue SBA has the administrative authority to lower the interest rate for SBA COVID EIDLs. Given the significant demand for SBA COVID EIDLs, SBA may be reluctant to lower interest rates if interest payments help cover the program's costs.

Congress could consider providing borrowers financial relief by enacting legislation to lower SBA COVID EIDL interest rates. In so doing, Congress could consider a number of approaches, including

- lowering interest on the loan origination date;
- lowering interest on the date the bill is enacted;
- lowering the interest rate retroactively (for example, 90 days prior to the bill enactment date); and
- lowering and/or waiving interest during deferral periods.

As discussed, SBA does not charge loan fees and relies on loan interest to help cover the cost of administering the SBA Disaster Loan Program. Congress may therefore consider appropriating additional funds to the SBA Disaster Loan Account if there is concern that lower interest rates might compromise SBA's ability to cover the costs of administering the disaster loan program (see "Funding the SBA Disaster Loan Account").

Grant Assistance

As noted, Congress has limited federal disaster assistance to businesses recovering from disasters to loans. However, some federal agencies, including the Federal Emergency Management Agency (FEMA), provide grants to individuals, certain nonprofits, and state, local, tribal, and territorial

[36] 15 U.S.C. §636(d)(5)(C).

governments following a disaster. Congress could consider administering the SBA COVID EIDL—or any future disaster assistance to businesses—as a grant program. The SBA could administer the grant program or Congress could authorize another federal agency to do it.

Grant and loan programs are administered differently. Grant administration can take more time and resources than loan administration. This is because grants generally have more stringent requirements than loans. For example, grants sometimes have narrower eligibility requirements than loans, have greater reporting requirements, and are subject to more post-award reporting requirements.[37]

As a result, providing disaster assistance to businesses as grants rather than loans would involve a few tradeoffs. For example, Congress could establish an entity to scrutinize grant applicants to ensure they are qualified to receive the relief. This would align the initiative with typical federal grant programs, which generally have more stringent eligibility requirements than loan programs. Establishing such an entity could result in greater transparency and reduce waste, fraud, and abuse; conversely, it could increase the amount of time it takes to get funds to businesses in need.

Using grants rather than loans to provide disaster relief to businesses may also affect the federal government's costs. With loans, there is generally an expectation of repayment, particularly with loans such as SBA COVID EIDLs that do not offer forgiveness. Grant recipients, on the other hand, do not return any of the funds.

Partly because the federal government expects repayment on its loans, loans generally have fewer restrictions on use than grants. If the federal government were to provide disaster assistance to businesses as grants, those funds would likely have more restrictions on use. Again, this could enhance federal oversight and reduce waste, fraud, and abuse. It could also reduce the ways businesses could use the assistance, which may hinder their recovery. Businesses may end up in a situation where they have to repay grant funds because they were misspent (either mistakenly or intentionally).

Additionally, grant programs often receive more applications than can be funded given available appropriations. In such a case, the implementing agency needs some way to allocate funds, either by statute or administrative action. Denying some grant applications can create a competitive disadvantage for the businesses that did not recieve grants compared with those that did. Formulas that provide partial funding can also be contentious and may not satisfy all concerns about government action creating a competitive advantage for some businesses over others. (See "Potential Competitive Advantages" below.)

Needs-Based Financial Relief Vs. Blanket Financial Relief

If Congress were to pursue providing financial relief to SBA COVID EIDL borrowers, it could consider two relief approaches: (1) establishing needs-based criteria for relief; and (2) providing blanket financial relief.

- **Needs-Based Criteria:** Congress may decide to establish criteria for financial relief to help limit assistance to those that are struggling to pay their EIDL. Defining or determining what constitutes "struggling" may be contentious. Congress may decide to delegate this responsibility to SBA based on its expertise in developing needs-based criteria. The potential implication to this approach is that verifying whether the business meets the criteria could be time-consuming,

[37] For more information on federal grants, see CRS Report R42769, *Federal Grants-in-Aid Administration: A Primer*, by Natalie Keegan.

raising concerns that businesses may fail before getting assistance. Additionally, some may argue that EIDL borrowers are by definition struggling because they cannot obtain credit elsewhere. If that is so, developing a criteria for struggling would be redundant.

- **Blanket Financial Relief:** In contrast, Congress could provide blanket relief to SBA COVID EIDL borrowers. This policy option may be timelier and prevent delays. The potential implication to this policy option is that businesses capable of repaying their loans will receive financial assistance. Blanket financial relief may therefore seem unfair to some. Another potential implication is that this policy option may cost the federal government more money compared to providing relief to borrowers that meet certain eligibility requirements.

Financial Relief Implications and Considerations

To some, the benefits of SBA COVID EIDL relief are twofold: (1) the relief could help struggling businesses remain in operation and limit the number of businesses that fail due to the burden of running a business and paying an SBA EIDL, and relatedly (2) protect the national economy because failing businesses could impact other businesses, industries, and sectors.

Others may argue that providing additional relief may become normative and thus a deviation from the standard practice of offering loans rather than grants. Because the SBA Disaster Loan Program provides assistance in response to hundreds of declarations per year, the costs could become burdensome to the federal government if loan forgiveness and other types of relief becomes accepted practice. The following sections discuss additional considerations related to providing SBA COVID EIDL borrowers with financial relief. These include the costs to the federal government, moral hazard concerns, and potentially redundant relief efforts.

Equity Concerns

SBA provides a significant number of disaster loans to businesses, nonprofit organizations, and households for a range of natural disasters. For example, from FY2018 to FY2022, there were 405 major disaster declarations under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), and 508 EIDL declarations were issued for loans totaling $13.4 billion (see **Table 3**).

Table 3. SBA Disaster Loans in Response to Natural Disasters

FY2018 - FY2022

Fiscal Year	Stafford Act Declarations	EIDL Declarations	Disaster Loan Amounts
2018	111	134	$6,973,894,046
2019	131	157	$2,215,013,577
2020	123	151	$582,722,265
2021	114	126	$1,636,447,230
2022	129	150	$1,961,806,911
Grand Total	**405**	**508**	**$13,369,884,029**

Source: U.S. Small Business Administration, *SBA Disaster Loan Data*, Public access to a selection of SBA Disaster loan data set, March 17, 2023. https://www.sba.gov/document/report-sba-disaster-loan-data. CRS was unable to locate disaster loan data for fiscal years 2023 and 2024.

The number of businesses that fail to recover from a disaster is significant. According to the Federal Alliance for Safe Homes, 40% of businesses do not reopen after a disaster, and another 25% close a year after the disaster.[38] In another study, SBA found that 90% of businesses fail within two years after being affected by a disaster.[39] Some may question why loan forgiveness and advances were provided for the COVID-19 pandemic, but not for other disasters. They may further argue that, if Congress considers additional financial assistance for SBA COVID EIDL borrowers, such as loan forgiveness, it should also be provided to borrowers with loans associated with natural disasters.

Cost Concerns

Some policymakers may be concerned about the cost implications of SBA COVID EIDL forgiveness. As mentioned previously, SBA COVID EIDL demand was significant. According to a report issued by the Government Accountabilty Office (GAO), between March 2020 and May 2021, SBA provided about $230 billion in loans and advances to small businesses and nonprofit organizations adversely affected by COVID-19.[40] Forgiving relatively smaller SBA COVID EIDLs of $10,000 or less would amount to roughly $5 billion, or 2.17% of the SBA COVID EIDLs debt oblications.

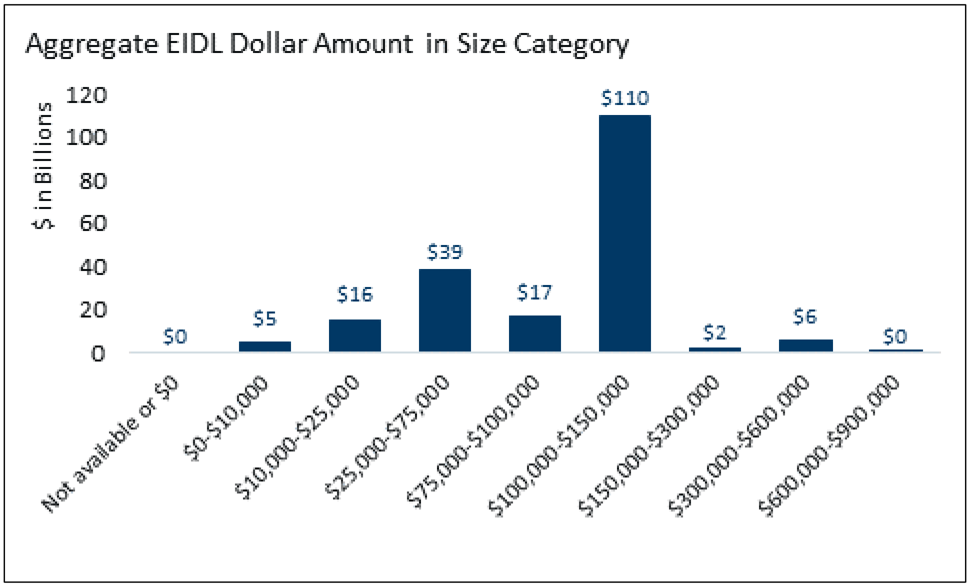
Figure 3 and **Figure 4** display both the number of COVID EIDLs issued by loan amount and the aggregate COVID EIDL dollar amount issued by loan amount. Totals reflect COVID EIDLs as of December 1, 2020.

[38] The Federal Alliance for Safe Homes, *Hurricane Toolkit*, 2014, https://www.ready.gov/sites/default/files/2020-04/ready_business_hurricane-toolkit.pdf. The percentage was derived from 2014 data from the Federal Emergency Management Agency (FEMA) and U.S. Department of Labor.

[39] U.S. Small Business Administration, *SBA Disaster Workshop: Are You Prepared for the Next Big Disaster?* November 12, 2015.

[40] U.S. Government Accountability Office, Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks, GAO-21-589, January 30, 2021, https://www.gao.gov/assets/d21589.pdf.

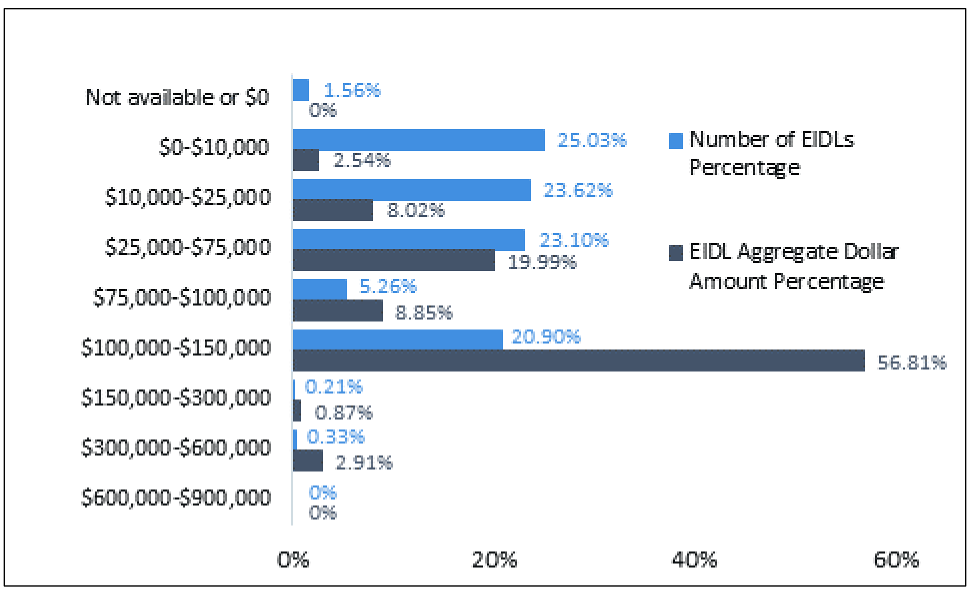
Figure 3. Aggregate COVID EIDL Dollar Amount by Loan Size



Source: U.S. Small Business Administration, *COVID-19 EIDL*, COVID-19 Economic Injury Disaster Loans as of 12-01-20, https://data.sba.gov/dataset/covid-19-eidl. Data were accessed on August 20, 2024.

Notes: All ranges are exclusive of the lower number, and inclusive of the higher number. Aggregate dollar amounts are rounded to the nearest billion. See **Table 2** for the exact dollar amounts.

Figure 4. Number of COVID EIDLs and Aggregate COVID EIDL Dollar Amount Percentages by Loan Size



Source: U.S. Small Business Administration, *COVID-19 EIDL*, COVID-19 Economic Injury Disaster Loans as of 12-01-20., https://data.sba.gov/dataset/covid-19-eidl. Data were accessed on August 20, 2024.

Notes: Percentages are shown beside each other by range. Number of COVID EIDLs percentages are shown on top, and aggregate COVID EIDL dollar amount percentages are shown below. All ranges are exclusive of the lower number, and inclusive of the higher number. Percentages are rounded to the nearest hundredth. Percentages for the $600,000-$900,000 range are listed as 0% due to rounding.

Figure 4 displays the percentage breakdowns by range of both number of SBA COVID EIDLs and COVID EIDL aggregate dollar amounts. The number of SBA COVID EIDLs amounting to $100,000 or less represent 77% of total loans, and account for 39% of the COVID EIDL aggregate dollar amount total. The number of EIDLs amounting to $25,000 or less represent 49% of the total number of loans issued, and account for 11% of the SBA COVID EIDL aggregate dollar amount total.

Waste, Fraud, and Abuse

Some policymakers may be concerned that ineligible or fraudulent SBA COVID EIDLs may be forgiven if Congress passed forgiveness legislation. According to GAO, some SBA COVID EIDL may have been provided to ineligible or fraudulent applicants. A GAO report stated that:

> SBA had provided about 5,000 advances totaling about $26 million to potentially ineligible businesses in three types of industries—adult entertainment, casino gambling, and marijuana retail—as of July 14, 2020. In addition, SBA had approved at least 3,000 loans totaling about $156 million to businesses that SBA policies state were ineligible for the EIDL program, such as real estate developers and multilevel marketers, as of September 30, 2020... SBA's Office of Inspector General (OIG) reported that it found strong indicators of fraud, such as loans going to potentially fraudulent accounts; loans to applicants with the same internet protocol address, email address, bank account, or mailing address; and loans to potentially ineligible businesses. In December 2020, SBA's independent financial statement auditor noted discrepancies including more than one loan or advance approved and disbursed to the same borrower. The auditor also identified over 6,000 disbursed EIDL loans (over $212 million total) issued to potentially ineligible borrowers.[41]

Based on this finding, there may be concern that ineligible and fraudulent SBA COVID EIDL applicants could have their loans forgiven if Congress authorized loan forgiveness.

Implications for Subsidy Rates

Congress designed EIDL as a disaster loan and made it available to businesses that cannot obtain a loan in the private market. As noted earlier, because the EIDL interest rate is determined according to statute, borrowers receive at- or below-market interest rates for loans that do not undergo traditional underwriting for default risk and are not secured by collateral. Consequently, EIDLs are arguably underpriced for risk.[42] Evidence that elevated levels of default risk may be underpriced can be observed by comparing EIDL subsidy rates to other SBA credit program subsidy rates.

[41] Ibid, pp 28-29.

[42] In finance, U.S. Treasury bond rates are referred to as *risk-free rates* because the federal government, unlike other borrowers, lacks financial risks such as default risk, the risk that a debt obligation will not be repaid on time or at all. At times when a comparable 30-year Treasury bond yield falls below the statutory EIDL interest rates (particularly for borrowers unable to get credit elsewhere), it may be unclear whether the federal government receives sufficient compensation for assuming elevated levels of default risk. At times when a comparable 30-year Treasury bond yield is above the statutory EIDL interest rate, the federal government receives no supplementary compensation for assuming elevated levels of default risk.

Definition of Subsidy Rate

In the SBA Disaster Loan program, the subsidy rate is the estimated lifetime cost to the federal government to directly make loans, expressed as a percentage of the total dollars disbursed.[43] Specifically, the estimated lifetime cost is computed as the present value of the estimated cash outflows (mainly the government's cost of funding the loan and the cost of defaults) minus the present value of the estimated cash inflows (mainly borrower payments and any post-default recoveries).[44] The estimates used to calculate cash outflows and inflows rely upon assumptions about SBA's future loan performance and recovery rates, which are formulated using its historical data.[45] Next, estimated lifetime cost is divided by the estimate of total dollars to be disbursed, resulting in the subsidy rate. SBA computes subsidy rates for each of its credit programs. If a subsidy rate is negative, then the cash inflows are greater than outflows. Stated differently, the compensation generated by a credit program exceeds its anticipated losses—the government is earning a "profit." Conversely, if a subsidy rate is positive, then cash outflows from the government exceeds inflows, resulting in losses. In this case, an appropriation from Congress, as prescribed by the Federal Credit Reform Act of 1990 (P.L. 101-508), would be required before SBA could continue operating the particular credit program.[46]

Figure 5 shows the subsidy rates for various SBA credit programs. As seen below, the SBA Disaster Loan Program has the highest credit subsidy rate among the agency's loan programs.[47] The subsidy rates for SBA's loan guarantee programs (e.g., 7(a), 504, and SBIC) have recently remained close to 0%, meaning that their cash inflows and outflows have been approximately equal over this period.[48] Lenders who participate in guarantee programs share various percentages of the credit risk with SBA, thus giving them an incentive to carefully scrutinize prospective borrowers. By contrast, the subsidy rates for the SBA's Disaster Loan Program are higher.[49] Given that the statutory loan pricing methodology generally does not allow for the incorporation of elevated default risk levels, the cash inflows (i.e., loan repayments) generated from EIDL would not be expected to cover its cash outflows (i.e., funds lent to borrowers).

[43] This definition is adapted from Office of Management and Budget, *Credit Supplement: Budget of the U.S. Government, Fiscal Year 2025*, March 2024, p. v, https://www.whitehouse.gov/wp-content/uploads/2024/03/cr_supp_fy2025.pdf.

[44] The SBA Disaster Loan program subsidy rates include underlying assumptions about defaults, net of recoveries as well as losses associated with below-market interest rates. See "Table 3. Direct Loans: Assumptions Underlying the 2024 Subsidy Estimates," Office of Management and Budget, *Credit Supplement: Budget of the U.S. Government, Fiscal Year 2025*, p. 12, https://www.whitehouse.gov/wp-content/uploads/2024/03/cr_supp_fy2025.pdf.

[45] U.S. Government Accountability Office, *Small Business Loans: SBA Generally Incorporated Key Elements for Estimating Subsidy Costs of 7(a) Program*, GAO-20-618, September 2020, pp. 1-41, http://www.gao.gov/assets/gao-20-618.pdf.

[46] See U.S. Government Accountability Office, *Credit Reform: Transparency Needed for Evaluation of Potential Federal Involvement in Projects Seeking Loans*, GAO-22-105280, July 28, 2022, p. 7, https://www.gao.gov/assets/gao-22-105280.pdf.

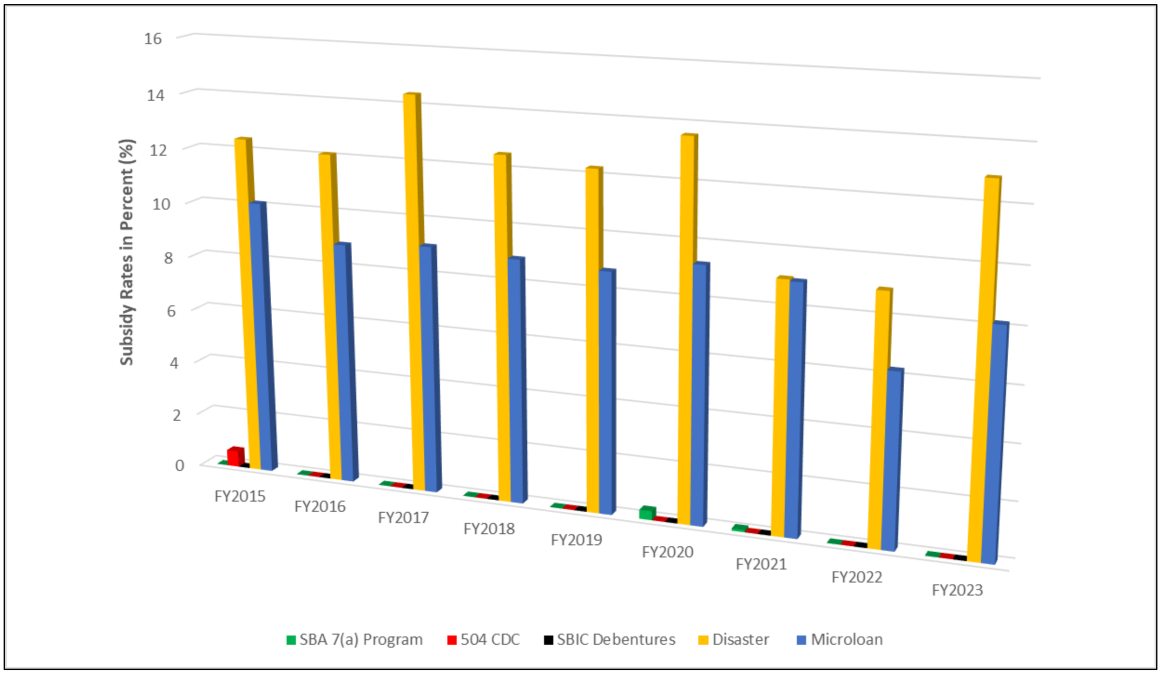
[47] As previously mentioned in this report, the SBA Disaster Loan Program has four major lending programs:(1) Real Property Disaster Loans for households; (2) Personal Property Disaster Loans for households; (3) Physical Disaster Business Loans for businesses of all sizes, often called Business Physical Disaster loans; and (4) Economic Injury Disaster Loans (EIDLs) for small businesses and private nonprofit organizations.

[48] Although SBA has computed subsidy rates for previous years, producing a continuous trend over a longer time period is challenging due to extenuating circumstances. For example, some credit programs reported separate subsidy rates for sub-programs as opposed to a single aggregate subsidy rate. For this reason, adding or averaging subsidy rates may give misleading results.

[49] SBA holds all of the default risk for its major direct loan programs: disaster loans and the loans SBA makes to Microloan Intermediaries. For gurarenteed loans, SBA holds a large share of the default riskeven if the loans may reside on the balance sheets of private lenders or investors. Prior to the COVID-19 pandemic and introduction of the PPP program, the EIDL subsidy rates were the highest compared to all other SBA programs.

Figure 5. Credit Subsidy Rates for Selected SBA Programs

FY2015-2023



Source: U.S. Small Business Administration, "Agency Financial Report," https://www.sba.gov/document/report-agency-financial-report. The subsidy rate for SBA's Disaster Loan program between FY2015 and FY2020 was at or above 12%. The subsidy rate during 2021 was 8.9% for the period October 1, 2020 to September 7, 2021 and was 9.2% for the period September 8, 2021 to September 30, 2021. The report did not explain why the subsidy rate dropped to 9.2%.

Notes: This chart does not include the positive credit subsidy associated with the Paycheck Protection Program, which is large and would cause a distortion because of significant differences in the scale of funding.

For those programs that were initially not traditionally underwritten and priced at below-market interest rates, various forms of financial relief translates into higher costs ultimately borne by taxpayers.

Funding the SBA Disaster Loan Account

If Congress provides financial relief to SBA COVID EIDL borrowers, it may consider appropriating funds to the SBA Disaster Loan Account, which is used to fund SBA disaster loans. The SBA Disaster Loan Account is a "no year" account, meaning that funding does not lapse at the end of the fiscal year. Rather, any remaining funds are rolled over to the next fiscal year. The SBA Disaster Loan Account receives disaster loan repayments (including interest on the loans), as well as annual and supplemental appropriations.

These revenue streams service current disaster loans (as funding comes into the account, SBA disaster loans are paid to borrowers as installments) and maintain a funding surplus for future disasters. Because the demand for SBA COVID EIDL was significant, providing loan forgiveness to borrowers, reducing loan interest rates, or both, may compromise SBA's disaster loan authority. If Congress provides borrowers financial relief, it may consider appropriating funds to the SBA Disaster Loan Account to ensure future borrowers can still access the program when disasters occur.

Moral Hazard

In economics, public finance, insurance, and other policy arenas, moral hazard behavior refers to someone not bearing the full costs associated with a bad outcome, and also lacking incentive to mitigate any risk of a bad outcome. For example, someone may avoid incurring the cost of purchasing insurance as protection against a financial loss if another person or entity is already anticipated to bear the cost. If the federal government significantly reduces the financial obligations of numerous SBA COVID EIDL recipients, other EIDL borrowers may stop paying their loans, as they may believe that their loans may also be forgiven. Additionally, the incentive for individuals to purchase private insurance for various other types of future contingencies (e.g., flood insurance) arguably diminishes.

Such an increase in moral hazard behavior by private individuals would likely translate into lost business activity for private insurance firms, resulting in smaller pools of private funds for costly disasters, and higher contingent liabilities for taxpayers. For these reasons, opponents of financial relief for borrowers may be concerned that some businesses would avoid purchasing insurance.

Duplicative Financial Relief for a Single Incident

The federal government has provided significant financial relief to borrowers in response to the pandemic. For instance, as noted

- SBA approved 11.3 million PPP loans, totaling $785.8 billion, of which at least $755.7 billion has been forgiven;[50]
- SBA approved 601,058 Targeted EIDL Advance payment grants totaling over $5.2 billion; and
- SBA approved 453,417 Supplemental Targeted EIDL Advance payment grants totaling over $2.3 billion (see **Figure 1**).[51]

Based on the above, some may argue that providing additional financial assistance may duplicate the relief provided in the form of forgiveness and advances. Others may note that additional financial relief may be justified to prevent struggling businesses from closing, therby helping businesses and protecting the national economy.

Potential Competitive Advantages

Government assistance to businesses has the potential to create a competitive advantage for the businesses that receive assistance over those that do not. SBA EIDL attempts to balance concerns about providing competitive advantages to businesses in several ways. First, the provided loans must be repaid with interest. While the interest rate is below market rates, this alone may not create a substantial advantage as EIDL borrowers receive funding to rebuild in exchange for a portion of future cash flow. Second, EIDLs are generally available to any eligible business that applies for one. SBA does not typically run out of authority for EIDLs and, when it does, Congress often grants additional authority to make more EIDLs. Therefore, any eligible business that wants an EIDL can usually receive one, creating a level playing field.

[50] U.S. Small Business Administration, *Forgiveness Platform Lender Submission Metrics | October 23*, October 23, 2021, https://www.sba.gov/sites/default/files/2022-10/2022.10.24_Weekly%20Forgiveness%20Report_Public.pdf.

[51] U.S. Small Business Administration, "Disaster Assistance Update Nationwide SBA COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances, April 28, 2022 (figures as of April 27, 2022)," at https://www.sba.gov/document/report-covid-19-eidl-reports-2022.

The balance within EIDL may shift if disaster assistance was provided as a forgivable loan or grant. Receiving funds that do not need to be repaid may create a competitive advantage for businesses who receive those funds relative to those who do not. A funded business receives money to rebuild today and can maintain the same future cash flow as other businesses.

Additionally, applications for forgivable loans or grants may exceed amounts appropriated by Congress for such a program. For example, SBA's COVID-era Restaurant Revitalization Fund (RRF) received an appropriation of $28.6 billion but received applications for over $76 billion during the first several weeks of the application period.[52] When a program is oversubscribed, the program administrator needs to prioritize applications. Eligible businesses who do not receive funding may end up at a competitive disadvantage due to the program administrator's decisions compared with businesses who do receive funding.

Concluding Observations

Throughout the years, Congress has expressed interest and concern for businesses recovering from disasters. For nearly a century, federal disaster assistance to businesses has primarily been limited to low-interest loans rather than grant assistance. Federal assistance is generally for borrowers that are unable to get loans in the private market. In addition to businesses, nonprofit organizations may also qualify for certain disaster loans.

Financial relief to businesses after disasters in the form of grants and loan forgiveness has been rare. In the case of the COVID-19 pandemic, some would argue such financial relief was justified due to the pandemic's adverse economic impact on the national economy. Similarly, some may argue that additional financial relief is needed to help businesses that are still struggling with the long-term economic effects of the pandemic.

Conversely, though some may agree that small businesses are important to the national economy, they may be concerned about the cost implications financial relief could have on the SBA Disaster Loan Program. In particular, they may be concerned that grants, advances, and loan forgiveness will increasingly become an accepted practice each time Congress provides financial relief beyond the existing framework of the loan program.

SBA COVID EIDLs have a 30-year repayment period and SBA has disbursed a significant amount of SBA COVID EIDLs, both in terms of number of loans and dollar amount. As such, the question of financial relief for SBA COVID EIDLs is likely to concern a large number of small businesses as well as the solvency of the program and may be an area of congressional interest for the foreseeable future.

[52] See CRS In Focus IF11819, *SBA Restaurant Revitalization Fund Grants*, by Adam G. Levin.

Appendix A. Overview of SBA Paycheck Protection Program (PPP)

SBA administered a variety of programs to provide assistance to small businesses in response to the economic injury caused by the COVID-19 pandemic. The largest, by dollar amount and number of businesses assisted, was the PPP.

PPP, as authorized by the CARES Act, offered loans to eligible entities for the costs of maintaining payroll (potentially to prevent mass unemployment due to the pandemic) and certain other limited operating expenses. Congress structured PPP as a forgivable loan program from the beginning. Congress appropriated funds for loan credit subsidies (in this case, this amounts to the cost of loan forgiveness) when PPP was created and when PPP was significantly modified by the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (part of P.L. 116-260), and the American Rescue Plan Act of 2021 (P.L. 117-2).

To be eligible for a PPP loan, an entity needed to be a small business (including certain sole proprietors, such as independent contractors) or one of other types of entities not generally eligible for SBA business assistance, such as nonprofit organizations.[53]

SBA started accepting PPP applications on April 3, 2020, and stopped accepting applications on May 31, 2021. Over several rounds of PPP loan applications, SBA guaranteed more than 11.3 million PPP loans, totaling over $785.8 billion.[54] The maximum PPP loan was $10 million. The average PPP loan was $69,300. The majority of PPP loans (8.9 million, or 78%) were for $50,000 or less.

SBA did not make PPP loans directly to businesses. PPP loans were made by third-party lenders such as banks, credit unions, Small Business Lending Companies (SBLCs), microlenders, certain financial technology firms, and other lenders approved to participate. SBA guaranteed 100% of a PPP loan's value, even a portion that may later be found to be ineligible for forgiveness.[55] Lenders received a fee from SBA based on the number and size of loans that they originated.

Statutorily, Congress made PPP part of SBA's 7(a) loan guarantee program. PPP shared some features with the 7(a) program, such as SBA guaranteeing loans by private lenders to small businesses. However, unlike PPP, there has not been widespread loan forgiveness in the 7(a) program since it was created (along with SBA) by the Small Business Act (P.L. 83-163, the Small Business Act of 1953, as amended). In contrast to PPP, the 7(a) program is generally self-financing through the fees charged to lenders for SBA's guarantee and due to low default rates among 7(a) loans. However, during previous periods of economic recession—when it wanted to promote 7(a) lending—Congress has authorized SBA fee waivers and has generally provided an appropriation for the resulting loan credit subsidy.[56]

---

[53] 15 U.S.C. §636(a)(36)(D).

[54] U.S. Small Business Administration, "Forgiveness Platform Lender Submission Metrics: October 23," as of October 23, 2022, https://www.sba.gov/sites/default/files/2022-10/2022.10.24_Weekly%20Forgiveness%20Report_Public.pdf.

[55] Information on PPP loan forgiveness is provided in the section on "Loan Forgiveness."

[56] For more information, see CRS Report R41146, *Small Business Administration 7(a) Loan Guaranty Program*, by Robert Jay Dilger and Anthony A. Cilluffo.

Appendix B. Federal Business Disaster Assistance: Historical Developments

Historically, federal disaster assistance to businesses has been limited to loans rather than grants. Some may question why grants are provided to individuals and households, state, local, and tribal governments, and nonprofit organizations, among others, but not to businesses. A review of congressional hearings, bill reports, agency reports, academic journals, and other authoritative sources did not identify specific language articulating why Congress makes a distinction between businesses and other sectors with respect to disaster assistance.

It appears that current federal policy on business disaster assistance first emerged in the 1930s. At that time, the United States had no overarching federal disaster policy or permanent program in place to respond to major disasters. Response, repair, and recovery activities were generally organized and carried out under local auspices, and states, municipalities, churches, and other nonprofit organizations such as the American Red Cross and the Salvation Army typically provided financial assistance.[57] When Congress did provide financial assistance, it was generally on an ad hoc basis.[58] Further, Congress wanted assistance measures limited to relieving "human distress and for such things as food, clothing, shelter, medicine and hospitalization" rather than the reconstruction of buildings, businesses, or anything else.[59]

The Great Depression also heightened concerns about federal costs. Thus, Congress sought to keep expenditures to a minimum by limiting assistance to individuals and households, and, to the extent possible, returning federal expenditures back to the Treasury.[60]

For example, in 1933, in response to an earthquake in Long Beach California, Congress debated whether to provide funding to the American Red Cross (the main source of disaster assistance at that time). The American Red Cross requested funding from Congress because it could not meet the needs of disaster victims through traditional fundraising efforts. Businesses, which were already struggling from the Great Depression, suffered a great deal of damage from the earthquake. While sympathetic to the struggling businesses, Congress was resolute that federal assistance for the earthquake be limited to immediate needs such as food and clothing. During a hearing before the Subcommittee in Charge of Deficiency Appropriations, the Vice Chairman in charge of Domestic Operations for the American Red Cross clarified that the Red Cross did not have a role in business recovery. The Vice Chairman observed:

> There will always arise the question as to business rehabilitation, businesses and factories that have been affected. Then, there is the question of the solvency or insolvency of public corporations, schools, school boards, and so forth, and the replacement of their losses. For that reason I made the statement at the outset delimiting the scope of Red Cross work to family problems as against those of business and government.[61]

---

[57] Rutherford H. Platt, *Disasters and Democracy: The Politics of Extreme Natural Events* (Washington, DC: Island Press, 1999), p. 1.

[58] David Butler, "Focusing Events in the Early Twentieth Century: A Hurricane, Two Earthquakes, and a Pandemic," in *Emergency Management: The American Experience 1900-2005*, ed. Claire B. Rubin (Fairfax, VA: Public Entity Risk Institute), p. 11.

[59] U.S. Congress, House Committee on Appropriations, Subcommittee in Charge of Deficiency Appropriations, *California Earthquake Relief*, 73rd Cong., 1st sess., March 15, 1933, S.J.Res. 14 (Washington: GPO, 1933), p. 15.

[60] Ibid., p. 18.

[61] Ibid., p. 6.

Congress later decided to make disaster loans available to nonprofit organizations with loan maturities not to exceed 10 years through the Reconstruction Finance Corporation (RFC).[62] Congress removed the restriction that limited loans to nonprofit organizations in 1936, and RFC was "authorized to make disaster loans to corporations, partnerships, individuals, and municipalities or other political subdivisions of states and territories."[63] The RFC continued to make disaster loans available until Congress dissolved the RFC and transferred its disaster loan authority to SBA in 1953 (P.L. 83-163).

Around the same time, Congress passed the Federal Disaster Relief Act of 1950 (P.L. 81-875). The Disaster Relief Act established a permanent authority that committed the federal government to provide specific types of assistance to states and localities (but not businesses) following a major disaster declaration. It appears that the creation of a separate authority to provide assistance to states and localities may have placed them on a separate policy trajectory from businesses. Though interlaced to a degree, assistance to businesses remained in the form of loans, while the scope and nature of federal assistance to other entities expanded as the Disaster Relief Act was amended in the 1960s, 1970s, and replaced in the 1980s by the Stafford Act.[64]

The response to COVID-19 marked a significant departure from the long-standing policy of loans rather than grants and required a series of complicated policies to make grant assistance available to businesses. First, Congress amended the definition of a disaster under the Small Business Act (P.L. 83-163, the Small Business Act of 1953, as amended) to include a pandemic as a declarable disaster.[65] The addition removed any potential ambiguity that a pandemic or infectious disease outbreak was a disaster. The CARES Act authorized the Paycheck Protection Program which provided forgiveable loans to businesses (see **Appendix A** for more information).

P.L. 116-136, the CARES Act also authorized Emergency EIDL Grants limited to $1,000 per employee, up to a maximum of $10,000.

P.L. 116-260, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Division N, Title III of the Consolidated Appropriations Act of 2021), established the Targeted Economic Injury Disaster Loan Advance (grant) program. The program provided a $10,000 advance payment to borrowers located in low-income communities that had suffered a revenue loss greater than 30% over specified time periods and had no more than 300 employees.

P.L. 116-260 also established the Shuttered Venue Operators Grant (SVOG) program. The program, administered by SBA's Office of Disaster Assistance, provided grants directly to businesses with no more than 500 employees that offered live performances and that had experienced at least a 25% revenue loss due to COVID-19. Among others, eligible applicants included live venue operators or promoters, theatrical producers, live performing arts organizations, and movie theater operators. The grants could be for up to $10 million, and could be used for a variety of purposes, including payroll costs, rent or mortgage payments, and capital expenditures.

SBA's Restaurant Revitalization Fund (RRF), established by the American Rescue Plan Act of 2021 (P.L. 117-2), provided grants of up to $5 million directly to restaurants and similar

[62] P.L. 73-4. For a detailed history of the RFC, see Secretary of the Treasury, *Final Report on the Reconstruction Finance Corporation*, May 6, 1959.

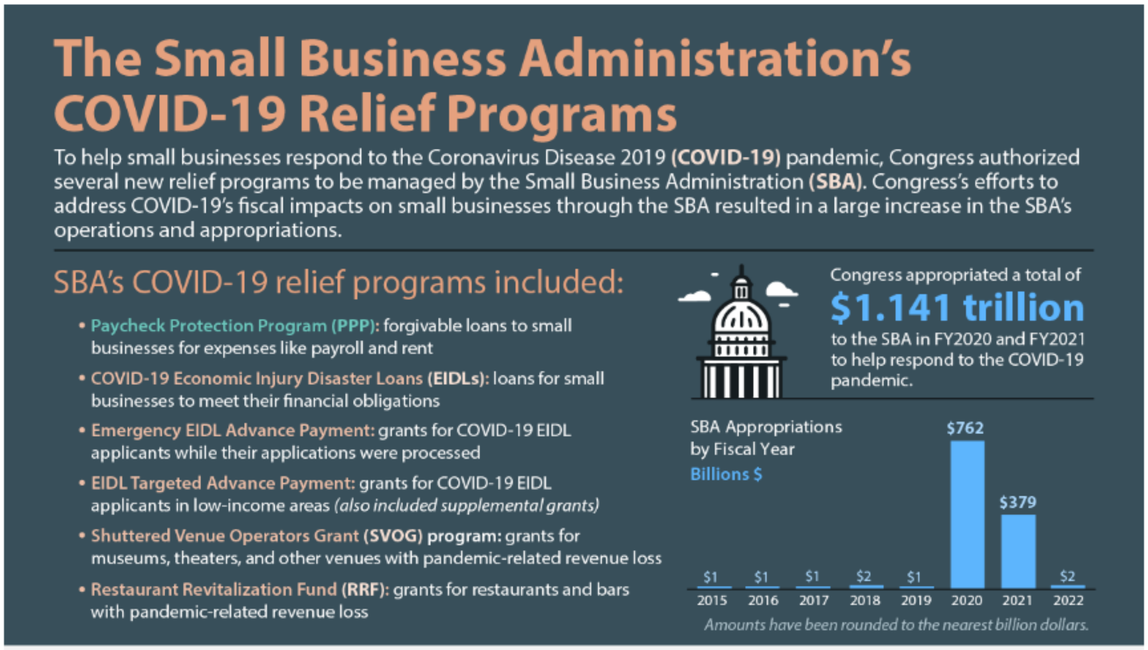
[63] Secretary of the Treasury, *Final Report on the Reconstruction Finance Corporation*, May 6, 1959, p. 112.

[64] These laws were the Disaster Relief Act of 1966 (P.L. 89-796), the Disaster Relief Act of 1970 (P.L. 91-606), the Disaster Relief Act of 1974 (P.L. 93-288), and the Robert T. Stafford Disaster Relief and Emergency Assistance Act of 1988 (P.L. 100-707).

[65] P.L. 116-123, the Coronavirus Preparedness and Response Supplemental Appropriations Act.

businesses that experienced COVID-19-related revenue loss. To qualify, for-profit businesses may not have owned or operated more than 20 locations. Like the SVOG program, RRF award recipients could use the grants for a range of purposes, including payroll costs, rent or mortgage payments, and construction of outdoor seating.

Figure B-1. SBA COVID-19 Relief Programs



Source: CRS analysis of SBA Congressional Budget Justifications and various approriation laws.

Appendix C. Loan Forgiveness Examples

Hurricane Betsy

President Lyndon B. Johnson signed the Southeast Hurricane Disaster Relief Act of 1965.[66] Section 3 of the act authorized the SBA Administrator to grant disaster loan forgiveness (or issue waivers) for property lost or damaged by Hurricane Betsy in Florida, Louisiana, and Mississippi. The act gave the borrower the option of canceling up to $1,800 of the loan, or waiving the interest due on the loan in a total amount of not more than $1,800 over a period not to exceed three years.[67]

Paycheck Protection Program

Paycheck Protection Program (PPP) loans were eligible for forgiveness depending upon how the proceeds from the loan were used and if the borrower maintained the same number of employees and wage levels. Payroll (at least 60% of the loan proceeds) and other covered expenses (such as mortgage interest, rent, and utility payments; up to 40% of the loan proceeds) could count toward PPP loan forgiveness if paid during the loan's 8- to 24-week covered period. To be eligible for full forgiveness, a borrower generally needed to retain employees and maintain salary and wages (or qualify for an exemption to the employment and pay maintenance requirement).[68] As of October 23, 2022, SBA guaranteed over 11.3 million PPP loans for about $785.8 billion. By that date, SBA had provided full or partial forgiveness to 10.5 million loans (93% of the total) for $755.7 billion (96% of the total).[69]

[66] P.L. 89-339, 79 Stat. 1301.

[67] Ibid. CRS could not locate a total value of loan forgiveness provided or waived for Hurricane Betsy.

[68] 15 U.S.C. §636m(d). The borrower could choose from several methods of determining base employment: (1) February 15, 2019, through June 30, 2019; (2) January 1, 2020, through February 29, 2020; or (3) for seasonal employers, any consecutive 12-week period between February 15, 2019, and February 15, 2020. Any forgiveness amount would be reduced proportionally to the reduction in full-time equivalent employees. A salary or wage reduction is calculated on an employee-by-employee basis, comparing each employee's salary or wages with that employee's salary or wages during the most recent full quarter in which the employee was employed that was before the covered period. Any salary or wage reduction in excess of 25% would cause a dollar-for-dollar decrease in forgiveness. There were certain exemptions to facing any applicable reduction in forgiveness: (1) the employer offered to restore employee hours at the same pay, regardless of whether the employee accepted; (2) the employee was fired for cause or the employee voluntarily separated; (3) the employer eliminated reductions by December 31, 2020, or, for later PPP loans, by the last day of the loans covered period, or; (4) the PPP loan is for $50,000 or less. Over three-quarters (78%) of PPP loans were for $50,000 or less, so most PPP borrowers were exempt from the employment and pay maintenance requirements. See Small Business Administration, "Business Loan Program Temporary Changes; Paycheck Protection Program—Loan Forgiveness Requirements and Loan Review Procedures as Amended by Economic Aid Act," 86 *Federal Register* 8283, February 5, 2021, https://www.federalregister.gov/d/2021-02314.

[69] Small Business Administration, "Forgiveness Platform Lender Submission Metrics: October 23," as of October 23, 2022, https://www.sba.gov/sites/default/files/2022-10/2022.10.24_Weekly%20Forgiveness%20Report_Public.pdf.

Author Information

Bruce R. Lindsay, Coordinator
Specialist in American National Government

Adam G. Levin
Analyst in Economic Development Policy

Anthony A. Cilluffo
Analyst in Public Finance

Daniela E. Lacalle
Research Assistant

Darryl E. Getter
Specialist in Financial Economics

Acknowledgments

Maura Mullins, Research Librarian, Government and Finance Division, helped compile the data for this report. Graham Tufts, Research Assistant, Banking, Insurance, Securities and Macroeconomic Policy Section, Government and Finance Division, helped with code development and data review. Corinne Blackford, Analyst in Small Business and Economic Development Policy, Government and Finance Division, and Julie Lawhorn, Analyst in Economic Development Policy, Government and Finance Division, provided editorial review.

Disclaimer