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SBA Disaster Loan Credit Standards, Collateral Requirements, and Debt Collection

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SBA Disaster Loan Credit Standards, Collateral Requirements, and Debt Collection

The U.S. Small Business Administration (SBA) provides low-interest, long-term loans to disaster survivors to allow them to repair or replace uninsured or underinsured property. About 80% of SBA disaster loans are made to individuals, either for real property damage (such as that to a house) or for personal property damage (such as that to a vehicle or other personal belongings). The other 20% of disaster loans are made to businesses and private nonprofit organizations, either to cover physical damage to business property or to cover financial obligations that could have been met had the disaster not occurred.

In designing the disaster loan program, Congress and the SBA have sought to balance “sympathetic consideration” of the needs and circumstances of disaster survivors with the need to maintain program integrity and protect the federal government’s financial interests. Three key factors in this balance are (1) the credit standards required to obtain a disaster loan; (2) the amount and quality of collateral required to be pledged to secure a disaster loan; and (3) debt collection processes followed after default. Together, credit, collateral, and collection policies are designed to keep loan performance and program losses at levels that are deemed acceptable by Congress and the SBA.

To secure an SBA disaster loan, an applicant must demonstrate that they are reasonably likely to repay the loan. The SBA relies on an applicant’s credit score to determine whether the applicant has an acceptable credit history; the applicant’s credit score further determines whether the applicant is eligible for a loan, what level of processing is required, and whether the applicant likely has access to credit elsewhere (which determines the loan’s interest rate). The applicant’s repayment ability is gauged on the applicant’s income and existing debt. Besides determining loan eligibility, the applicant’s estimated repayment ability contributes to decisions regarding monthly payment amount and loan maturity date. The SBA uses a multistep process for loan applications that is designed to quickly decline applications with clearly unacceptable credit histories or little repayment ability; faster rejections allow the SBA to more quickly refer applicants to the Federal Emergency Management Agency (FEMA) for possible grant assistance.

Disaster loan applicants may be required to pledge specific assets as collateral for their loan. In the event of default, the SBA can seize and liquidate this collateral to repay the loan. Requiring more collateral for a loan may increase the likelihood that the SBA will be repaid or, after default, increase the amount the SBA is able to recover. However, higher collateral requirements may reduce access to the program by preventing applicants with insufficient collateral from accessing SBA disaster loans. Currently, disaster loans of \$50,000 or less made for a *presidentially* declared major disaster do not require collateral. For disasters receiving declaration by the *SBA Administrator*, loans of \$14,000 or less do not require collateral. For SBA home disaster loans that require collateral, the SBA’s collateral requirements are more lenient than those of most private lenders. For these loans, the SBA typically takes the borrower’s house as the only collateral, regardless of the house’s available equity.

SBA business disaster loans have higher collateral requirements compared with SBA disaster loans for individuals or households. Businesses generally must have collateral with available equity at least equal to the value of the disaster loan. Business disaster loans also often require personal guarantees from business principals. Congress and the SBA have, at times, changed the dollar-value threshold above which borrowers are required to pledge collateral; usually, they have increased the threshold. Stated justifications for the changes—when provided—often mention the need to account for inflation occurring since the last change, or a desire to simplify the program.

In the case of loan default and liquidation of collateral, debt collection represents the last opportunity for the federal government to recover its capital. Before a loan defaults, the SBA uses a variety of tools, including financial hardship relief and loan modifications, to help borrowers return to making regular monthly payments. If those options fail, the SBA can refer the loan to the Department of the Treasury for enhanced debt collection efforts, including offsetting (holding back) the borrower’s wages or federal payments to the borrower (such as federal tax refunds, contractor payments, or Social Security benefits). A borrower who defaults on an SBA disaster loan also becomes ineligible for most federal loans in the future.

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Introduction

The U.S. Small Business Administration (SBA) has been a major source of disaster assistance since the agency was established in 1953. The SBA disaster loan program offers direct, low-interest, long-term loans for physical and economic damages to businesses, nonprofit organizations, and small agricultural cooperatives. The SBA also provides disaster loans to individuals and households.¹

The SBA disaster loan program provides two types of disaster loans to small businesses and nonprofit organizations:

1. **Business physical disaster loans** provide businesses located in a declared disaster area with up to \$2 million² to repair or replace damaged physical property, including machinery, equipment, fixtures, inventory, and leasehold improvements³ that are not covered by insurance.
2. **Economic injury disaster loans (EIDLs)** provide businesses located in a declared disaster area with up to \$2 million⁴ to help meet financial obligations and operating expenses that could have been met had the disaster not occurred. EIDL proceeds can be used only for the working capital necessary to enable the business or organization to alleviate the specific economic injury and to resume normal operations. EIDL amounts are based on actual economic injury and financial needs, regardless of whether the business suffered any property damage.

Business physical disaster loans and EIDLs are collectively referred to as “SBA business disaster loans.”

The SBA disaster loan program also provides two types of disaster loans to individuals and households:⁵

1. **Personal property disaster loans** provide creditworthy homeowners or renters located in a declared disaster area with up to \$100,000 to repair or replace their damaged personal property.
2. **Real property disaster loans** provide creditworthy homeowners located in a declared disaster area with up to \$500,000 to repair or restore their primary residence to its pre-disaster condition.

Personal property disaster loans and real property disaster loans are collectively referred to as “SBA home disaster loans.”

Historically, the majority of disaster loans provided by the SBA (roughly 80%) are for individuals and households.⁶

¹ For more information about the Small Business Administration (SBA) disaster loan program, see CRS Report R44412, *SBA Disaster Loan Program: Frequently Asked Questions*, by Bruce R. Lindsay.

² The SBA can waive the \$2 million maximum amount and provide a larger business physical disaster loan if the business is a major source of employment in the area and meets other requirements. See 15 U.S.C. §636d.

³ Leasehold improvements are changes that a tenant makes to a commercial rental property to customize the property to the tenant’s needs.

⁴ The SBA can waive the \$2 million maximum amount and provide a larger economic injury disaster loan (EIDL) if the business is a major source of employment in the area and meets other requirements. See 15 U.S.C. §636d.

⁵ See the SBA’s regulations for Home Disaster Loans (13 C.F.R. §§123.100-123.108); Physical Disaster Business Loans (13 C.F.R. §§123.200-204); and Economic Injury Disaster Loans (13 C.F.R. §123.300-123.303).

⁶ U.S. Congress, House Committee on Small Business, *Small Business Administration Disaster Assistance Program*, (continued...)

If the amount of an SBA disaster loan is above a certain threshold, an applicant must pledge collateral such as real estate, personal property, or other items of ascertainable value to secure the loan. The SBA uses collateral to minimize its risk by ensuring borrowers stay current on their financial commitment. Collateral also helps offset loan default losses. The SBA obtains rights to a borrower's collateral with a security agreement that outlines the steps the SBA may take if the borrower fails to repay the disaster loan. While the SBA will seek to secure any available collateral, it will not reject an applicant solely because the applicant cannot provide collateral to secure their loan.

The SBA typically secures its collateral interest by taking a lien against the applicant's property. The lien is recorded within the county or state in which the property is located.⁷ The SBA does not require an applicant to pledge collateral if the loan amount (or aggregate loan amount) does not exceed the unsecured thresholds (also known as unsecured loan limits). The SBA does not require collateral for personal property disaster loans if the applicant does not own real estate (this usually occurs when the applicant is a renter).⁸

Following a disaster loan default, the SBA is required under the Debt Collection Improvement Act of 1996 (P.L. 104-134, as amended) to “maximize collections of delinquent debts owed to the Government by ensuring quick action ... and the use of all appropriate collection tools.”⁹ For the first several months following a missed payment, the SBA tries to get the borrower back to making regular monthly payments. Beyond the first few months after a missed payment, the SBA may begin debt collection efforts, including by liquidating collateral and referring the borrower to the Department of the Treasury.¹⁰

This report first provides an overview of SBA disaster loan budgeting, credit standards, and loan collateral requirements. As discussed later in this report, the amount of collateral required for a disaster loan depends on (1) what type of declaration is issued for the incident, and (2) the total amount of the disaster loan. This report then transitions to discussion of the SBA's policy for debt collection. For the purposes of this report, debt collection occurs when the borrower has become delinquent in making payments on their SBA disaster loan.

Overview of SBA Disaster Loan Budgeting¹¹

Budgeting for the SBA disaster loan program is governed by the Federal Credit Reform Act of 1990 (FCRA; Subtitle B of Title XIII of P.L. 101-508). Under FCRA, the SBA records the expected lifetime cost of a disaster loan in the fiscal year that the loan is obligated. This amount, also known as a *credit subsidy*, is the amount by which the federal government's disbursements

2017, p. 1. More SBA disaster assistance was provided to small businesses than individuals and households in response to the economic impact of the Coronavirus disease 2019 (COVID-19). For more information about SBA disaster assistance for COVID-19, see CRS Report R46284, *COVID-19 Relief Assistance to Small Businesses: Issues and Policy Options*, by Bruce R. Lindsay, Adam G. Levin, and R. Corinne Blackford.

⁷ The SBA sends a letter to the senior lien holder requesting advance notice of any foreclosure actions against the borrower if the lien is located in a “non-notice” state.

⁸ Renters who own real estate are required to pledge the real estate as collateral for the loan.

⁹ 31 U.S.C. §3701 note.

¹⁰ SBA, *Disaster Loan Servicing and Liquidation*, SOP 50 52 2, September 1, 2015, https://www.sba.gov/sites/default/files/files/SOP_50_52_2_1.pdf (hereinafter SBA SOP 50 52 2).

¹¹ This section is largely drawn from CRS Report R48558, *SBA Disaster Loans Program Account: Overview and Policy Options*, by Bruce R. Lindsay and Anthony A. Cilluffo.

exceed amounts received over the loan’s lifetime (on a net present value basis).¹² This calculation is largely based on assumptions about the difference between the federal government’s cost of borrowing funds and the interest rate charged to disaster loan borrowers; the expected disaster loan default rate; and how much of the defaulted balance the government will eventually recover.¹³ At the estimated FY2026 subsidy rate of 18.75%, \$1 of credit subsidy appropriations can support \$5.33 (or \$1 divided by 0.1875) of disaster loan lending.

At times, Congress and the SBA have expressed interest in reducing the cost of a given amount of lending in the disaster loan program. There are two broad options for doing so: (1) reducing the interest rate subsidy, or (2) reducing the cost of defaults, net of recoveries.¹⁴ As shown in **Table 1**, the component of the subsidy rate related to the interest rate has varied from FY2016 to FY2026, from -3.88% to 15.67%, largely based on the external interest rate environment. For more about interest rates in the disaster loan program, see CRS Report R46963, *SBA Disaster Loan Interest Rates: Overview and Policy Options*, by Bruce R. Lindsay, Darryl E. Getter, and Anthony A. Cilluffo.

Compared with the interest rate component, the cost of the defaults component of the subsidy rate (net of recoveries) has varied less over the FY2016 to FY2026 period, ranging from 9.70% to 13.64%, as shown in **Table 1**. Assumptions about the lifetime default rate for the cohort (the group of loans made during a fiscal year) and the post-default recovery rate determine this portion of the subsidy rate. The program’s credit policy is the largest contributor to the default rate, while collateral requirements and debt collection policies contribute to the post-default recovery rate. The remainder of this report examines each of these three policy areas in detail.

Table 1. SBA Disaster Loan Credit Subsidy Rates and Loan Assumptions, FY2016-FY2026

Numbers Are Percentages

Fiscal Year	Initial Subsidy Rate Estimate	Components of Subsidy Rate			Loan Assumptions		
		Defaults, Net of Recoveries	Interest Subsidy	All Other	Borrower Interest Rate	Default Rate	Post-Default Recovery Rate
2026	18.75	10.57	10.16	-1.98	2.90	29.01	30.53
2025	22.22	9.70	15.67	-3.15	3.16	29.57	28.57
2024	20.55	10.34	12.67	-2.46	2.93	28.22	27.76
2023	12.91	11.57	1.66	-0.32	2.23	25.38	28.69
2022	8.96	12.61	-3.88	0.23	1.82	25.68	32.01
2021	8.92	11.22	0.72	-3.02	2.23	24.82	29.89
2020	13.62	10.35	7.58	-4.31	2.91	26.11	24.57
2019	12.29	12.74	2.56	-3.02	2.67	27.85	23.22

¹² A net present value basis calculation adjusts for time differences in the value of money. Generally, due to factors such as inflation and the possibility of earning interest on savings, a dollar is worth more today than it will be far into the future.

¹³ A hypothetical loan with no default risk that charges an interest rate similar to the Treasury’s cost of borrowing would have no subsidy cost. Disaster loans differ from this hypothetical by both (1) having an interest rate below the Treasury’s cost of borrowing and (2) having a default rate above zero.

¹⁴ Alternatively, if Congress or the SBA wanted to expand access to the disaster loan program by making programmatic changes, then this budgetary analysis could help guide an analysis of the potential budgetary costs of those changes.

Fiscal Year	Initial Subsidy Rate Estimate	Components of Subsidy Rate			Loan Assumptions		
		Defaults, Net of Recoveries	Interest Subsidy	All Other	Borrower Interest Rate	Default Rate	Post-Default Recovery Rate
2018	12.54	13.01	3.45	-3.91	2.73	28.51	21.59
2017	14.42	13.30	5.62	-4.49	2.81	29.65	19.81
2016	12.10	13.64	2.56	-4.11	2.90	27.88	18.13

Source: Table created by CRS using data from President’s Budget, Federal Credit Supplements, FY2017-FY2026, available at <https://www.govinfo.gov/app/collection/budget/>. Each fiscal year is from the following fiscal year’s budget document (for example, FY2016 data are from the FY2017 President’s Budget), except FY2026, which is from the FY2026 President’s Budget.

Notes: SBA = Small Business Administration. The initial subsidy rate estimate is the sum of the three components of subsidy rate. (Any differences are due to rounding.) The initial subsidy rate estimate is estimated before the beginning of the fiscal year and does not incorporate any annual reestimates of the subsidy rate. The initial subsidy rate is the rate used for determining the cost of loans made during the fiscal year, as well as reinstatements of loans for each respective fiscal year after the end of the year. A reinstatement is a loan or part of a loan initially approved in a prior fiscal year that was canceled but subsequently reapproved by the SBA.

SBA Disaster Loan Credit Policy

As a creditor, the SBA takes steps to be reasonably sure a loan will be repaid in full. To that end, the SBA requires that the applicant have a “satisfactory credit history,” meaning that the applicant’s credit history “generally shows payments to creditors as agreed unless otherwise justified.”¹⁵ The SBA requires that its loan officers “consider the totality of circumstances affecting the overall credit of the applicant when evaluating credit.”¹⁶ Applicants must also be able to afford the additional debt burden of the potential loan to be approved.

Acceptable Credit History

For both individual and business applicants, the credit verification process for a disaster loan generally starts when an SBA loan officer pulls a credit bureau report (such as a report from Equifax, Experian, or TransUnion) for the applicant. An individual loan application will generally use only the credit report of the individual applicant. A disaster loan of \$200,000 or more to a business also requires a commercial credit report (such as that from Dun & Bradstreet) prior to a credit worthiness decision.¹⁷

For individual disaster loan applicants, there are three important credit score thresholds:

1. An applicant with a credit score below the SBA’s minimum acceptable score is automatically declined. As of November 2023, the SBA uses a minimum acceptable credit score of 570.¹⁸ According to the U.S. Government Accountability Office (GAO), the SBA has reported that it “automatically

¹⁵ SBA, *Disaster Assistance Program*, SOP 50 30 9, May 31, 2018, p. 87, <https://www.sba.gov/sites/default/files/2018-06/SOP%2050%2030%209-FINAL.PDF> (hereinafter SBA SOP 50 30 9).

¹⁶ SBA SOP 50 30 9, p. 87.

¹⁷ SBA SOP 50 30 9, p. 87.

¹⁸ U.S. Government Accountability Office (GAO), *Disaster Loan Program: SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities*, GAO-24-106682, November 30, 2023, p. 11, <https://www.gao.gov/products/gao-24-106682>.

- declines applicants so they can seek assistance from [the Federal Emergency Management Agency (FEMA)] faster.”¹⁹ An applicant whose application is automatically rejected due to a low credit score may request that the SBA reconsider their application through a manual review of the applicant’s credit report.
2. An applicant with a credit score of 625 or greater with an income of \$50,000 per year or greater is eligible for expedited processing.²⁰ Applicants meeting both requirements are presumed to have repayment ability, allowing them to bypass the fixed debt method for repayment analysis (explained further below).²¹
 3. An applicant with a credit score of 700 or greater might be determined to have credit available elsewhere and therefore may have to pay a higher interest rate on their SBA disaster loan.²²

The SBA is generally willing to consider the totality of circumstances behind adverse credit events, particularly if the events were due to a disaster. Applicants can overcome a poor credit history with reasonable explanations for why the events happened, such as if the events were due to factors outside the applicant’s control or if the events were due to temporary factors.²³ Applicants are less likely to be successful in doing so, however, if their credit history includes delinquent federal obligations, such as federal student loans, SBA business loans, previous disaster loans, federal contracts or grants, or other debts owed to the government. Applicants with delinquent federal obligations who do not have a judgment lien against their property may be eligible for a disaster loan, but the loan would require special processing. Applicants with delinquent federal obligations who do have a judgment lien against their property are generally ineligible, but an applicant might be eligible if the delinquency is due to the disaster itself or if the applicant was current on a repayment plan before the disaster.²⁴

Repayment Ability

Disaster loan applicants must also demonstrate an acceptable repayment ability to be approved for a disaster loan. For the repayment ability analysis for SBA home disaster loans, there are three key thresholds:

¹⁹ GAO, *Disaster Loan Program*. For more about FEMA assistance for individuals, see CRS In Focus IF11298, *A Brief Overview of FEMA’s Individual Assistance Program*, by Elizabeth M. Webster.

²⁰ GAO, *Disaster Loan Program*, p. 8.

²¹ SBA SOP 50 30 9, pp. 92-93.

²² Historically, the SBA’s determination of “credit elsewhere” had three parts; applicants were determined to have reasonable credit available elsewhere if they passed at least two of the three tests. One of those tests is having a credit score of 700 or greater. Another test is related to whether the applicant’s available cash flow is significantly greater than the expected loan payment. The third test is whether the applicant’s pre-disaster adjusted net worth (assets minus liabilities, with a \$100,000 deduction) is more than four times greater than the uncompensated loss. The SBA amended its regulations in July 2024 to remove the cash flow and net worth tests, allowing the agency to base the credit elsewhere test entirely on the applicant’s credit score. The SBA has not updated the program SOPs for that change, so it is not clear how the SBA implemented the change or if it is still using the 700 credit score threshold. See SBA, “Disaster Assistance Loan Program Changes to Unsecured Loan Amounts and Credit Elsewhere Criteria,” 89 *Federal Register* 59826, July 24, 2024, <https://www.federalregister.gov/d/2024-16207>.

²³ SBA SOP 50 30 9, pp. 87-88.

²⁴ SBA SOP 50 30 9, pp. 90-91.

1. At the initial interview stage, the SBA *summarily declines*²⁵ applications from applicants with low income, as they are unlikely to have available cash flow to repay a disaster loan.²⁶ The SBA also summarily declines applicants with high existing debt relative to their income.²⁷ In both cases, a shorter time frame for rejection decisions may allow the SBA to refer disaster survivors more quickly to FEMA for potential grant assistance.²⁸
2. For applicants who are not summarily declined for low income or high existing debt, the SBA makes an initial estimate of repayment ability based on income as reported on the loan application and total debts from the credit bureau report. If this initial estimate of monthly income available for repayment is less than \$50, then the SBA *automatically declines*²⁹ the application.³⁰
3. If the applicant passes the previous two tests and is not eligible for expedited processing (which requires a credit score of at least 625 and an income of at least \$50,000 per year), then the SBA assesses repayment ability using the SBA's "fixed debt method" (FDM).³¹ The FDM is based on the principle that there is a maximum amount of debt that a person can reasonably afford and that providing debt above that level entails unacceptable risk of default.³² The test compares monthly gross income to existing debt and an estimate of basic living expenses to determine whether the applicant has enough available cash flow to be able to repay the disaster loan. For individual applicants, the income available for additional debt payments (which helps determine the maximum loan amount and the loan term) is generally monthly gross income (from all recurring sources), less a 25% disregard³³ for living expenses and less monthly payments for housing (rent or mortgage and related expenses), auto loans, credit cards, and other obligations.³⁴

The process to determine repayment ability for business disaster loans is different. Business disaster loans are not subject to the summary declination and automatic declination processes. Instead, business applicants are more likely than individual applicants to undergo the full FDM

²⁵ In the SBA disaster loan program, a *summary decline* is when an application is declined at the intake stage, before it has been accepted for processing.

²⁶ The low-income threshold is updated by the SBA annually. However, these announcements are not publicly available. For 2017 income levels, see SBA SOP 50 30 9, Appendix 4, p. 165.

²⁷ SBA SOP 50 30 9, p. 10.

²⁸ For more about FEMA assistance for individuals, see CRS In Focus IF11298, *A Brief Overview of FEMA's Individual Assistance Program*, by Elizabeth M. Webster.

²⁹ In the SBA disaster loan program, an *automatic decline* is when an application is declined by the automated checks based on the credit bureau report. These tests occur after an application has been accepted for processing.

³⁰ SBA SOP 50 30 9, p. 92. Individuals and households with low income may be eligible for FEMA grant assistance. For more information about the application process for FEMA and SBA disaster assistance, see CRS Report R45238, *FEMA and SBA Disaster Assistance for Individuals and Households: Application Processes, Determinations, and Appeals*, by Bruce R. Lindsay and Elizabeth M. Webster.

³¹ As mentioned above, an applicant with a credit score of 625 or greater and income of \$50,000 or greater is presumed to have repayment ability and is eligible for expedited processing. Applicants who are eligible for expedited processing do not undergo the fixed debt method (FDM) examination.

³² SBA SOP 50 30 9, p. 96.

³³ In the SBA disaster loan program, the *disregard* is the portion of income that is considered to be unavailable to service a disaster loan. For example, an applicant with \$3,000 in monthly income would have \$750 (25% of \$3,000) disregarded. The test would assume that the applicant has a total of \$2,250 (\$3,000 minus \$750) available each month for housing costs, existing debts, and the SBA disaster loan.

³⁴ SBA SOP 50 30 9, pp. 96-100.

analysis. For the FDM analysis, business applicants have a 40% disregard rate for their monthly gross income (versus the 25% disregard rate for individual applicants).³⁵

Loan Acceptance and Approval Data

A November 2023 GAO analysis examined the outcomes of SBA disaster loan applications submitted by survivors of one of 13 hurricanes that occurred from FY2018 to FY2022.³⁶ **Table 2** summarizes the outcomes, which are also described below.

Of the 430,158 disaster loan applications submitted, over half (54%) were either summarily declined or were declined after further processing. Around a quarter (about 111,380) of total applicants were summarily declined for having low income, high existing debt, or both. Among the applications that were accepted for processing but later declined, 63,399 applications (15% of all received applications) were declined due to unsatisfactory credit history, and 39,287 (9% of all received applications) were declined due to a lack of repayment ability. These two groups include some overlap, since the SBA can identify multiple reasons for declining an application. The SBA and GAO sources are not clear about how much the groups overlap. Depending on how much overlap there was between these two groups, somewhere between 41% and 50% of total disaster loan applications received following the 13 hurricanes were declined due to an unacceptable credit history, a lack of repayment ability, or both.³⁷

Table 2. Outcomes of SBA Disaster Loan Applications
Based on Applications from Survivors of 13 Hurricanes from FY2018 to FY2022

Outcome	Number of Applications	Percent of Applications Received
Applications received	430,158	100%
Summarily declined for low income, high existing debt, or both	~111,380 ^a	26%
Other applications not accepted for processing	~5,862 ^a	1%
Applications accepted for processing	312,916	73%
... Total declined (automatic decline or after further review)	120,924	28%
... Unsatisfactory credit history ^b	63,399 ^c	15%
... Lack of repayment ability ^b	39,287 ^c	9%
... Ineligible business or property ^b	13,176 ^c	3%
... Applications withdrawn	59,703	14%
... Applications in progress at the time of GAO's study	911	<1%
... Applications approved	131,378	31%

³⁵ SBA SOP 50 30 9, p. 96. This higher disregard rate means that a business will qualify for a smaller disaster loan, or would require a longer loan term, than an individual with similar income and existing debts.

³⁶ GAO, *Disaster Loan Program*.

³⁷ These shares include applications summarily declined for low income, high existing debt, or both, as well as loans declined during processing for unsatisfactory credit history or lack of repayment ability. Therefore, the number of loans declined for these reasons can range from 174,779 (111,380 plus 63,399, which assumes *all* loans that were declined during processing for lack of repayment ability were also declined for unsatisfactory credit history) to 214,066 (111,380 plus 63,399 plus 39,287, which assumes that *none* of the loans that were declined during processing for unsatisfactory credit history were also declined for lack of repayment ability). The share of total applications thus declined can range from 41% (174,779 divided by 430,158) to 50% (214,066 divided by 430,158).

Source: Table created by CRS based on data in U.S. Government Accountability Office (GAO), *Disaster Loan Program: SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities*, GAO-24-106682, November 30, 2023, pp. 21-24, <https://www.gao.gov/products/gao-24-106682>.

Notes: SBA = Small Business Administration. See the GAO report for additional details on the analysis.

- a. These numbers are estimates. GAO states that “most applications (95 percent) that were not accepted [for processing] were summarily declined” (see p. 22 of the GAO report).
- b. These are only the top three reasons for an application’s decline; other reasons are not listed.
- c. The numbers and percentages do not sum to the total and share of loans declined because the SBA can list multiple reasons for declining an application; an application may therefore be counted under multiple categories.

According to GAO’s analysis, the average credit score of applicants whose applications were automatically declined for poor credit was 533, while the average credit score of applicants whose applications were approved was 697.³⁸

SBA Disaster Loan Collateral Policy

As a provider of disaster assistance, the SBA has decided that it should seek to “sympathetically consider” the needs of the applicant.³⁹ To that end, the SBA often requires less collateral for a disaster loan than would be required for a similar loan in the private sector. Disaster loans (real property and business physical) that fall below a certain threshold do not require any collateral. For real property disaster loans (typically for homes) above the collateral threshold, the SBA typically takes a lien on the applicant’s disaster-damaged house and considers the collateral requirement to be met, regardless of the value of the collateral. Business applicants have stricter collateral requirements. Businesses must pledge collateral with sufficient value to cover the full amount of the loan. Additionally, the business’s principals must provide personal guarantees, which may be secured by the principals’ personal assets. Congress and the SBA have regularly made changes to these collateral policies over the history of the program, as described below in “Collateral Policy History.”

The unsecured loan threshold has a role in determining the loan proceeds that the SBA can provide to borrowers relatively quickly. Loan processing takes longer for borrowers who provide collateral because the SBA must document the collateral and make required legal filings to protect the SBA’s interest in the collateral. However, the SBA can advance amounts up to the unsecured threshold to borrowers relatively quickly, after the loan has been approved and accepted but before collateral filings are complete.⁴⁰ Therefore, the unsecured loan threshold is often included in policy discussions about the speed of the SBA’s response to disasters.

Secured and Unsecured Loans

Whether a loan is secured or unsecured depends upon whether the borrower pledged collateral and, if so, on the value of the collateral in relation to the loan amount. An *unsecured loan* does not have collateral. A *secured loan* has specific pledged collateral (such as a lien on the borrower’s house). A *fully secured loan*, such as what the SBA requires for larger business disaster loans, has specific pledged collateral with a value at least equal to the value of the loan. The *unsecured loan threshold* is used interchangeably with *collateral threshold*, and is the highest dollar value disaster loan (based on loan and declaration type) that the SBA will make without requiring the borrower to pledge collateral.

³⁸ Due to data limitations, these credit score averages are based on disaster loan applications for 11 of the 13 hurricanes considered. GAO, *Disaster Loan Program*, p. 23.

³⁹ In program guidance, the SBA encourages disaster assistance employees to “balance between protection of the Agency’s [financial] interest and sympathetic consideration of the applicant’s needs.” See SBA SOP 50 30 9, p. 96.

⁴⁰ See SBA SOP 50 30 9, pp. 143-144.

Collateral by Loan Type and Declaration Type

Collateral requirements for SBA disaster loans vary by the type of disaster declaration, disaster loan type, and loan amount (see **Table 3**). There are two types of declarations relevant to the SBA disaster loan program—presidential declarations and SBA Administrator declarations.⁴¹ While the SBA does not require collateral for loans below the threshold amounts listed in **Table 3**, it will accept collateral for smaller loans if the applicant voluntarily offers it (which the applicant may choose to do for tax purposes).⁴²

Table 3. SBA Disaster Loan Collateral Requirements

Loan Threshold Amounts for Collateral, by SBA Disaster Loan Type and Declaration

Physical Disaster Home and Business Loan		Economic Injury Disaster Loan (EIDL)
Presidential Declaration	SBA Administrator Declaration	Any Declaration
\$50,000	\$14,000	\$50,000

Source: Table created by CRS based on analysis of 13 C.F.R. §123.11.

Note: SBA = Small Business Administration.

Collateral for SBA Home Disaster Loans

The SBA does not require collateral for a home disaster loan

- of \$50,000 or less, if the incident is declared a major disaster pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act; P.L. 93-288, as amended; 42 U.S.C. §§5121 et seq.);⁴³ or
- of \$14,000 or less, if the incident is declared a disaster pursuant to the Small Business Act (P.L. 83-163, as amended; 15 U.S.C. §§631 et seq.).⁴⁴

As noted above, for most home disaster loans above the collateral threshold, the SBA will take the disaster-damaged property as collateral for the loan. In these cases, the SBA will consider the collateral requirement to be met, regardless of the owner’s available equity in the property.⁴⁵ Additional collateral requirements may apply in other, limited cases, such as if the borrower uses the loan proceeds to relocate or if the borrower offers other collateral in lieu of the primary

⁴¹ For information about the types of disaster declarations, see CRS Report R44412, *SBA Disaster Loan Program: Frequently Asked Questions*, by Bruce R. Lindsay.

⁴² An SBA home disaster loan primarily secured by a lien on the applicant’s private residence may qualify for the mortgage interest deduction. For more information, see Internal Revenue Service, *Home Mortgage Interest Deduction*, Pub. 936, October 28, 2025, p. 6, <https://www.irs.gov/forms-pubs/about-publication-936>.

⁴³ The Stafford Act authorizes the federal government’s primary sources of financial assistance to help state and local governments, and individuals and households, recover and rebuild following an incident. For an overview of various federal disaster assistance programs, see CRS Report R48712, *Federal Disaster Assistance: An Overview of Programs*, coordinated by Maura Mullins.

⁴⁴ The Small Business Act authorizes the SBA Disaster Loan Program. The SBA operates the Disaster Loan Program to provide low-interest loans to homeowners, renters, businesses of all sizes, and nonprofit organizations to assist them with recovering from declared disasters.

⁴⁵ Available equity is the value of an asset minus any other claims against it. For example, if the owner of a house worth \$400,000 has a mortgage with a senior lien on the house with a balance of \$250,000, and a home equity line of credit with a junior lien of \$50,000, then the available equity in the house is \$100,000 (\$400,000 minus \$250,000 minus \$50,000).

residence.⁴⁶ The SBA does not require collateral for personal property loans, even above \$50,000, if the applicant does not own any real estate.⁴⁷

Because of these standards, most SBA home disaster loans are provided on terms that are less secured when compared with most private lenders' terms. Private lenders require collateral for many types of private loans without government guarantees. For example, a mortgage is secured by the house and an auto loan by the vehicle. Private lenders might require higher standards for collateral than the SBA, such as requiring that the loan be fully secured by collateral (meaning the value of the collateral meets or exceeds the value of the loan). Taking collateral provides the lender with some security in case of loan default, which reduces the net cost of default for the lender. Private lenders sometimes offer some unsecured credit products—such as credit cards and personal loans—that do not require collateral, but those often have significantly higher interest rates than loans with collateral.

The SBA reported that, for the full portfolio of SBA disaster loans (both home disaster loans and business disaster loans) from 2018 to 2023,⁴⁸ 41% of approved borrowers did not provide collateral to fully secure the disaster loan; 13% did not have available equity to secure 20% of the loan; and 7% did not have any available equity to secure any portion of the loan.⁴⁹ Security rates are likely lower for home disaster loans, since collateral requirements are higher for business loans (as described below); therefore, these figures would likely be higher for home disaster loans if analyzed separately.

Collateral for SBA Business Disaster Loans

The SBA requires more collateral for business disaster loans than for home disaster loans. However, the SBA does not require collateral for a business disaster loan

- of \$50,000 or less, if the loan is an EIDL (regardless of declaration type);
- of \$50,000 or less, if the loan is for physical damage and the incident is declared a major disaster pursuant to the Stafford Act; or
- of \$14,000 or less, if the loan is for physical damage and the incident is declared a disaster pursuant to the Small Business Act.

Generally, in cases where collateral is required, SBA loan officers are required to “determine what collateral is available, and take that collateral which will best secure each loan.”⁵⁰ Generally, the SBA requires that business borrowers pledge collateral with available equity worth at least 100% of the loan amount. The SBA prefers real estate (especially non-damaged real estate) and fixed assets, such as machinery and equipment, as collateral. Additionally, the SBA requires all principals in the business (such as partners in a partnership or all owners with at least a 20% share in a corporation) to provide personal guarantees of loan repayment. If the business can pledge sufficient business assets to fully secure the loan, then the required personal guarantees can be unsecured. If not, then the guarantors must make secured guarantees, in which they pledge specific personal assets (such as their personal residence) as collateral for the business loan.⁵¹

⁴⁶ SBA SOP 50 30 9, pp. 113-114.

⁴⁷ SBA SOP 50 30 9, p. 113.

⁴⁸ The SBA source for these data does not clarify whether these are fiscal years or calendar years.

⁴⁹ SBA, “Disaster Assistance Loan Program Changes to Unsecured Loan Amounts and Credit Elsewhere Criteria,” 89 *Federal Register* 59826, July 24, 2024, <https://www.federalregister.gov/d/2024-16207>.

⁵⁰ SBA SOP 50 30 9, p. 114.

⁵¹ SBA SOP 50 30 9, pp. 114-117.

Collateral for Multiple Disaster Loans

In some instances, a borrower may have more than one SBA disaster loan (e.g., an individual real property loan and an EIDL).⁵² The SBA aggregates loan amounts for the same type of loan (treating home and business physical disaster loans as the same type) provided for the same disaster when determining if the loans require collateral. If the total of all physical disaster loans (home and business) is more than \$50,000, then collateral is required for all loans, even if the amount of each loan is less than \$50,000. The SBA aggregates physical disaster loans separately from EIDLs. For businesses, the SBA treats affiliated businesses as one borrower for this aggregation. The SBA does not aggregate disaster loans with outstanding balances owed by the same borrower from different disasters.⁵³

For example, a borrower with a home disaster loan of \$30,000 and a business physical disaster loan of \$30,000 would require collateral on both loans. A borrower with a business physical disaster loan of \$30,000 and an EIDL of \$30,000 would not require collateral on either loan. A borrower with a business physical disaster loan of \$25,000 from a disaster several years ago and a new home disaster loan of \$30,000 from a disaster this year would not require collateral for either loan. All of these examples assume the loans are pursuant to a presidentially declared disaster; the examples would be different for SBA Administrator-declared disasters.

Collateral Policy History

Collateral requirements for the disaster loan program have changed over time as Congress and the SBA have struck different balances between the need to protect the SBA’s interest in the loan and “sympathetic consideration” of the disaster survivor’s situation. The stated justifications for changes in collateral thresholds—when provided—have often mentioned adjusting the levels for inflation. **Table 4** lists some of the thresholds (explained further below) in effect at different times in the program’s history; threshold amounts are listed in nominal dollars, with comparable values in 2025 dollars using three methods of adjusting for price changes.⁵⁴

Table 4. SBA Disaster Loan Collateral Thresholds

Year and Loan Type	Nominal Dollars	2025 Dollars		
		Median Home Sales Price ^a	GDP Deflator	PPI for Construction Materials
1978, all loans ^b	\$5,000	\$37,032	\$19,349	\$21,319
1988, physical disaster loans	\$10,000	\$36,859	\$23,449	\$29,216
2008, MREIDL	\$50,000	\$90,100	\$73,265	\$86,008

⁵² Examples include a borrower who needs a physical disaster loan to repair their business and an EIDL for working capital for the same disaster; a borrower who has two or more affiliate businesses that were damaged by the same disaster; and a borrower who has a home and a business damaged by the same disaster.

⁵³ SBA SOP 50 30 9, pp. 112-113, with updates by CRS for increased unsecured loan threshold amounts.

⁵⁴ Several methods of inflation adjustment are economically reasonable in this context. The median home sales price measures changes in the market value of the primary assets (primary residences) used as collateral for disaster loans to individuals. Additionally, most of these loans to individuals are made to repair disaster damage to a primary residence. The gross domestic product (GDP) deflator measures broad price changes in the economy, using prices paid for goods and services by consumers, businesses, and the government. The Producer Price Index (PPI) for construction materials measures changes in the cost of construction materials. Since most disaster loans (both individual and business) are to repair physical damage, the cost of construction materials is one measure of how those costs have changed over time. Other price adjustment measures beyond these three are also possible; these three were chosen for illustration.

Year and Loan Type	2025 Dollars			
	Nominal Dollars	Median Home Sales Price ^a	GDP Deflator	PPI for Construction Materials
2008, physical disaster loans	\$14,000	\$25,228	\$20,514	\$24,082
2014, all except MREIDL	\$25,000	\$36,187	\$33,441	\$39,393
2024, loans for presidentially declared disasters	\$50,000	\$49,365	\$51,414	\$51,429

Source: Table created by CRS based on data from the Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, accessed April 29, 2026: “Median Sales Price of Houses Sold for the United States,” <https://fred.stlouisfed.org/series/MSPUS>; “Gross Domestic Product: Implicit Price Deflator,” <https://fred.stlouisfed.org/series/GDPDEF>; and “Producer Price Index by Commodity: Special Indexes: Construction Materials,” <https://fred.stlouisfed.org/series/WPUSI012011>.

Notes: SBA = Small Business Administration; GDP = Gross Domestic Product; PPI = Producer Price Index; MREIDL=Military Reservist Economic Injury Disaster Loan. All index data are based on annual averages. The changes in the table are illustrative of long-term trends in the program and are not comprehensive of all changes. See accompanying text for explanations of each change and the types of disaster loans to which they apply.

- a. This value adjustment is calculated based on the ratio of the collateral threshold and the median sales price for homes. According to the U.S. Census Bureau and U.S. Department of Housing and Urban Development data cited by the Federal Reserve Bank of St. Louis, the median sales price of homes sold was \$55,850 in 1978; \$112,225 in 1988; \$229,550 in 2008; \$285,775 in 2014; \$418,975 in 2024; and \$413,650 in 2025. For example, in 1978, the \$5,000 collateral threshold was about 9% of the median home sale price of \$55,850. The equivalent amount in 2025 based on this ratio is $\$413,650 * 9\% = \$37,032$ (calculated before rounding).
- b. Senate Report 100-416 does not include a specific year, instead stating “late 1970s.” This table uses 1978 for illustration.

As enacted in the 1950s, the Small Business Act did not provide statutory references to a specific dollar value threshold for requiring collateral,⁵⁵ and the SBA administratively allowed smaller loans to go unsecured. By the late 1970s, the administrative unsecured loan limit was \$5,000.⁵⁶

The Small Business Administration Reauthorization and Amendment Act of 1988 (P.L. 100-590) provided the first statutory threshold for requiring collateral, with physical disaster loans (home and business) of more than \$10,000 requiring collateral.⁵⁷ The conference report for that act explained that “this increase simply recognizes inflation and will partially compensate for it and also should streamline loan processing and reduce red tape.”⁵⁸ The SBA kept the collateral threshold for EIDLs at \$5,000.

Several changes to disaster loan collateral policy were made in 2008. The Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008 (P.L. 110-186) added a new provision that required collateral for Military Reservist EIDLs of more than \$50,000.⁵⁹ Later that same year, the Food, Conservation, and Energy Act of 2008 (P.L. 110-246; 2008 farm bill) was enacted, which made two changes to collateral policies.⁶⁰ First, it increased the statutory threshold to require collateral for physical disaster loans of more than \$14,000 (from \$10,000). Second, it

⁵⁵ The Small Business Act, P.L. 83-163 and P.L. 85-536.

⁵⁶ U.S. Congress, Senate Committee on Small Business, *Small Business Administration Reauthorization and Amendment Act of 1988*, report to accompany H.R. 4174, 100th Cong., 2nd sess., S.Rept. 100-416, July 7, 1988, p. 23.

⁵⁷ P.L. 100-590, §122.

⁵⁸ U.S. Congress, House of Representatives, *SBA Reauthorization and Amendment Act of 1988: Conference Report*, report to accompany H.R. 4174, 100th Cong., 2nd sess., H.Rept. 100-1029, October 3, 1988, p. 38.

⁵⁹ P.L. 110-186, §203.

⁶⁰ P.L. 110-246, §12065.

allowed the SBA to increase that threshold “as the Administrator determines appropriate in the event of a major disaster.” The committee report for a related earlier bill⁶¹ again framed the increase in terms of inflation: “[The unsecured loan] threshold is not indexed to inflation.... This bill would raise the level to \$14,000 to allow for homeowners and businesses to access additional capital without the need for collateral.”⁶² The committee report did not include an explanation for granting discretion to the SBA Administrator to increase the threshold for loans made pursuant to a major disaster.⁶³

Following Hurricane Sandy in late 2012, President Obama established the Hurricane Sandy Rebuilding Task Force, comprised of the heads of 23 executive branch departments and agencies.⁶⁴ As part of the Task Force’s charge, it developed a “Rebuilding Strategy” that included a recommendation to “increase SBA’s unsecured disaster loan limits and expedite the disbursement of small dollar loans.”⁶⁵ Pursuant to that recommendation, in April 2014, the SBA increased the collateral threshold for physical disaster loans (home and business) made pursuant to a major disaster to \$25,000 (from \$14,000) and increased the collateral threshold for EIDLs for all disaster types (except Military Reservist EIDLs) to \$25,000 (from \$5,000). The collateral threshold for SBA Administrator-declared disasters was still \$14,000. In making the change, the SBA pointed to the Task Force’s recommendation and noted that “with these increased limits, more businesses, homeowners, and other potential victims that may be impacted by future disasters will receive much-needed small dollar loans more quickly following a disaster”;⁶⁶ these unsecured loans can follow expedited processing and disbursement procedures since the SBA does not need to process additional documentation for pledged collateral.⁶⁷

In 2015, the Recovery Improvements for Small Entities (RISE) After Disaster Act of 2015 (P.L. 114-88) made two changes to SBA disaster loan collateral policies. First, the act included a provision that clarified that the SBA shall not require a business owner to pledge their personal residence as collateral for a physical business disaster loan or EIDL of \$200,000 or less, provided that the owner could substitute other personal assets of equal quality for the full amount of the loan.

⁶¹ S. 163 (110th Congress), the Small Business Disaster Response and Loan Improvements Act of 2007.

⁶² U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Small Business Disaster Response and Loan Improvements Act of 2007*, report to accompany S. 163, 110th Cong., 1st sess., S.Rept. 110-64, May 7, 2007, p. 4.

⁶³ Although the committee report did not mention a rationale for the change, the context of the bill suggests a few possibilities. First, the report mentions that the unsecured loan threshold is not indexed for inflation. Granting discretion to the SBA Administrator to increase the threshold, at least for major disasters, could allow the SBA to administratively address the effects of inflation. Second, the original legislation (S. 163) was part of a succession of efforts (detailed in the introduction of S.Rept. 110-64) by the Senate Committee on Small Business and Entrepreneurship to reform the SBA disaster loan program following the historically destructive hurricanes Katrina and Rita in 2005. Specifically, the bill’s report states that “the SBA failed in its mission to respond quickly and effectively to victims’ needs in the weeks and months following the hurricanes.” Granting authority to the SBA Administrator to increase the collateral threshold could give the SBA increased flexibility to respond to disasters when there is a heightened need to respond quickly, or in cases of exceptionally destructive disasters that leave even once-prosperous survivors without any valuable assets for collateral. Finally, granting the authority only for major disasters may recognize that the SBA responds to a variety of disasters and that disasters of differing severity may warrant different credit policies.

⁶⁴ Executive Order 13632 of December 7, 2012, “Establishing the Hurricane Sandy Rebuilding Task Force,” 77 *Federal Register* 74341, December 14, 2012, <https://www.federalregister.gov/d/2012-30310>.

⁶⁵ See recommendation 42 on p. 25 of Hurricane Sandy Task Force, *Hurricane Sandy Rebuilding Strategy: Progress Update – Spring 2014*, <https://archives.hud.gov/news/2014/pr14-076-sandy-rebuilding-0614.pdf>.

⁶⁶ SBA, “Disaster Assistance Loan Program; Disaster Loan Credit and Collateral Requirements,” 79 *Federal Register* 22859, April 25, 2014, <https://www.federalregister.gov/d/2014-09183>.

⁶⁷ SBA, “Disaster Assistance Loan Program.”

Second, the act increased the statutory collateral threshold for physical disaster loans (home and business) to \$25,000 (from \$14,000) for all disaster types, and the act allowed the SBA Administrator discretion to administratively increase the threshold for all disaster types (not just major disasters). The increased threshold and the SBA Administrator’s expanded discretion were set to expire after three years, in 2018. However, they were both temporarily extended twice: through 2019 (by P.L. 115-280) and through 2022 (by the Rebuilding Small Businesses After Disasters Act, P.L. 116-70). Both temporary provisions expired on November 25, 2022.

The SBA made two administrative changes to collateral thresholds since the expiration of the temporary changes provided by the RISE After Disaster Act of 2015. First, in June 2023, the SBA amended its regulations to grant itself greater discretion regarding when to take collateral for loans above the collateral threshold. Before the change, borrowers were required to provide available collateral. After the change, borrowers are required to provide available collateral *as determined by the SBA*. The rulemaking stated that “this increased flexibility will allow SBA to tailor this collateral requirement to the disaster survivor’s circumstances. For example, requiring liens on property with no liquidation value may increase the cost burden to the borrower without providing meaningful liquidated recovery for SBA in the event of a default.”⁶⁸

Second, in July 2024, the SBA exercised its statutory discretion to increase certain collateral thresholds. At that time, the SBA set the collateral thresholds for physical disaster loans (home and business) made pursuant to a major disaster and all EIDLs at \$50,000 (for most loan types, up from \$25,000), while the threshold for physical disaster loans made pursuant to an SBA-declared disaster is the statutory value of \$14,000 (down from \$25,000). The SBA stated that it expected that the change would reduce the share of disaster loans that require collateral from 46% under the previous thresholds to 31% under the new thresholds.⁶⁹

SBA Disaster Loan Debt Collection Policy

Following a default, the SBA is required under the Debt Collection Improvement Act of 1996 (P.L. 104-134, as amended) to “maximize collections of delinquent debts owed to the Government by ensuring quick action ... and the use of all appropriate collection tools.”⁷⁰ The SBA uses an escalating collection process that depends upon the length of time a disaster loan has been in default. The collection process starts with a past due notice and payment reminder calls after around one month of payment delinquency. Collection efforts then escalate over time to include due process notices, acceleration of the total amount due,⁷¹ seizure and liquidation of collateral, reporting to credit bureaus, and referrals to the Treasury for enhanced collection efforts.⁷²

Delinquency and Default

During the first 60 days following a missed payment, the SBA begins the debt collection process by sending the borrower past due notices in the mail and making automated payment reminder

⁶⁸ SBA, “Disaster Assistance Loan Program Changes to Maximum Loan Amounts and Miscellaneous Updates,” 88 *Federal Register* 39335, June 16, 2023, <https://www.federalregister.gov/d/2023-12779>.

⁶⁹ SBA, “Disaster Assistance Loan Program Changes to Unsecured Loan Amounts and Credit Elsewhere Criteria,” 89 *Federal Register* 59826, July 24, 2024, <https://www.federalregister.gov/d/2024-16207>.

⁷⁰ 31 U.S.C. §3701 note.

⁷¹ Acceleration of the loan means that the full amount remaining on the loan is due immediately, regardless of the previous repayment schedule.

⁷² SBA SOP 50 52 2.

phone calls. The SBA's initial goal following a missed loan payment is to return the loan to regular servicing status (that is, to get the borrower back to making regular payments as agreed upon). The SBA uses a variety of tools to do this, depending upon the borrower's situation. These include the following:

- A **deferment**, which can suspend monthly payments for a period of time in response to a temporary challenge.⁷³ For example, a borrower's income might be low for several months because a temporary injury prevents the borrower from working. Loan payments can resume after the borrower recovers and returns to work.
- **Severe financial hardship relief**, which can modify loan terms to assist borrowers who have experienced significant adverse events since receiving the SBA disaster loan.⁷⁴ For instance, the SBA may grant permanent or temporary changes to the loan terms, such as lower monthly payments or a lower interest rate. In addition, this relief delays the SBA's decision to move the loan into liquidation and collection.
- A **workout**, which is an agreement between the SBA and the borrower to make substantive changes to the loan that enable the borrower to repay as much of the original loan as possible while avoiding the need for actions such as foreclosure, liquidation of collateral, bankruptcy, and enhanced debt collection. Some of the possible loan changes include forbearance, changing the monthly payment amount, lowering the interest rate, or allowing the borrower to sell collateral to pay down the loan.⁷⁵ The workout process can start as late as the beginning of the collateral liquidation process. A workout is often the last chance for the SBA and the borrower to resolve the debt before debt collection and/or litigation.

Debt Collection and Charge-Off

Debt collection activity increases significantly when a loan is over 60 days past due, as shown in **Table 5**. At that time, the SBA sends the borrower and loan guarantors a "60 day" due process letter to inform them that the SBA intends, in an additional 60 days (that is, at 120 days delinquent), to send the loan to the Treasury for enhanced debt collection. The borrower has until the end of that 60-day period to pay the full amount of the loan, enter into a satisfactory installment agreement to repay the loan, or prove that the borrower is not legally liable for the debt (such as due to bankruptcy or fraud).⁷⁶ At 75 days past due, the SBA sends a demand notice, which formally accelerates the entire amount due on the loan and demands payment for the full amount. Automated payment reminder phone calls also continue through this period. The borrower has "reasonable time" following the 60-day due process notice to enter into an acceptable workout plan for the loan.⁷⁷ If the borrower and the SBA fail to reach an agreement, then the SBA will begin to liquidate collateral.

⁷³ SBA SOP 50 52 2, pp. 70-72.

⁷⁴ SBA SOP 50 52 2, pp. 40-44.

⁷⁵ SBA SOP 50 52 2, pp. 84-86.

⁷⁶ For due process requirements, see 13 C.F.R. §140.3.

⁷⁷ SBA SOP 50 52 2, p. 84.

Table 5. Timeline of SBA Actions Following Disaster Loan Delinquency

Days After Delinquency	SBA Actions	
1-59	The SBA seeks to get the loan back to regular repayment status through tools such as deferment, severe financial hardship relief, and workout plans.	Throughout the delinquency period before charge-off and referral to Treasury, the SBA makes automated payment reminder phone calls and mails past due notices.
60	The SBA sends the “60 day” due process letter informing the borrower that the SBA intends to refer the debt to Treasury for collection in an additional 60 days.	
75	The SBA sends a demand notice, formally accelerating (demanding full payment of) the delinquent debt.	
120+	Once the SBA has completed collateral liquidation, the loan is eligible to be charged off (removed from the SBA’s books), transferred to Treasury’s Cross-Servicing program and the Treasury Offset Program, and reported to credit bureaus and the federal database of defaulted borrowers; for cancelled or uncollectible debt, the SBA issues an IRS Form 1099-C (which may have tax consequences for the borrower).	

Source: Table created by CRS based on Small Business Administration (SBA), *Disaster Loan Servicing and Liquidation*, SOP 50 52 2, September 1, 2015, https://www.sba.gov/sites/default/files/files/SOP_50_52_2_1.pdf, and other SBA policies.

Notes: Dates following delinquency are approximate; specific actions may occur at different times depending upon the facts and circumstances. See the accompanying text for additional information about each action.

The SBA takes a number of additional actions once loans are 120 days past due. After this time, if the SBA has completed all debt collection actions for which expected recoveries exceed expected costs and does not anticipate additional payments, debt collection, or recoveries on the loan, it will *charge off* the remaining balance. Charge-off is an administrative accounting action by which the SBA recognizes the loss of the unpaid loan amount, for purposes of its own financial reporting. Charge-off is not loan forgiveness and it does not release the borrower or guarantors from needing to repay the loan. Instead, charge-off formally moves the loan from liquidation to a post-liquidation status that makes it eligible for additional collection tools.⁷⁸

Following charge-off, the SBA may take several actions. For debts that have been canceled for being uncollectible (such as due to an accepted offer in compromise⁷⁹), the SBA issues an Internal Revenue Service (IRS) Form 1099-C reporting the cancellation of debt; the canceled debt amount may be taxable income to the borrower. The SBA reports the debt to private credit reporting bureaus; having the debt on their credit record may make it harder for the borrower to obtain credit (private or government) in the future. The SBA also reports the debt to the federal Credit Alert Verification Reporting System (CAIVRS); having debt recorded in the CAIVRS generally makes a borrower ineligible for future federal loans.⁸⁰

⁷⁸ SBA SOP 50 52 2, pp. 120-121.

⁷⁹ An *offer in compromise* is an agreement between the SBA and the borrower to settle the debt for less than the full amount owed. The SBA states that, “generally, an offer in compromise will be accepted if it reflects the [borrower’s] true ability to pay, and will be rejected if the [borrower] can pay the loan in full via a lump sum payment or an installment agreement, or if acceptance of the offer would harm the integrity of the SBA disaster loan program.” See SBA SOP 50 52 2, p. 106.

⁸⁰ For more about CAIVRS, see U.S. Department of Housing and Urban Development, “Credit Alert Verification Reporting System (CAIVRS),” accessed March 25, 2026, <https://www.hud.gov/stat/sfh/caivrs-system>.

If the remaining debt is still collectible, the SBA sends it to the Treasury’s Cross-Servicing program and the Treasury Offset Program.⁸¹ The Treasury conducts enhanced debt collection activities such as (as applicable) garnishing wages or offsetting federal payments to the borrower, including federal contractor payments, Social Security benefits, federal income tax refunds, and other payments. Borrowers remain subject to federal payment offset until the debt is repaid, the debt becomes unenforceable (such as through bankruptcy, death, or a statute of limitations), or the Treasury accepts an offer in compromise. In FY2024 (the most recent full fiscal year data available), the SBA reported recovering \$126.5 million on charged-off disaster loans, mostly through Treasury efforts.⁸²

Concluding Observations

The SBA disaster loan program expanded during the COVID-19 pandemic, largely due to the issuance of nearly 4 million COVID EIDLs for a total of nearly \$387 billion.⁸³ Given this portfolio growth and the SBA’s ongoing responsibilities in servicing these loans, the core underwriting and debt collection policies in the program may be of increased interest.⁸⁴ In the disaster loan program, Congress and the SBA seek to balance a “sympathetic consideration” of the needs of disaster survivors with the need to financially safeguard the program (and taxpayers) from losses.⁸⁵ Disaster loan program policies regarding credit standards, required collateral, and debt collection all contribute to this balance at different points in the loan lifecycle. Credit standards determine which borrowers can get a disaster loan and prevent lending to applicants who do not have a realistic chance of repaying the loan. Collateral policy determines the level of security of the loan if the borrower were to default on payments. Collection policy comes into play after default and liquidation of collateral; collection policy represents the federal government’s last chance to be repaid, by enforcing debt collection from other sources, including wages, tax refunds, and Social Security benefits.

⁸¹ For more about the Treasury’s debt collection programs, see CRS Report RL34660, *Federal Government Debt Collection: An Overview of the Treasury Offset and Federal Payment Levy Programs*, by Gary Guenther.

⁸² SBA, “Small Business Administration Loan Program Performance,” data as of June 30, 2025, <https://www.sba.gov/document/report-small-business-administration-loan-program-performance>.

⁸³ The unpaid principal balance (the outstanding loan amount without interest) for the SBA disaster loan program increased from \$9.6 billion at the end of FY2019 to \$367.0 billion at the end of FY2022. SBA, “Small Business Administration Loan Program Performance.”

⁸⁴ For example, the SBA Office of Inspector General issued an audit report on the SBA’s collection efforts on delinquent COVID EIDLs in August 2025. SBA Office of Inspector General, “SBA’s Collection Efforts on Delinquent COVID-19 EIDLs,” Report 25-23, August 12, 2025, <https://www.sba.gov/document/report-25-23-sbas-collection-efforts-delinquent-covid-19-eidls>.

⁸⁵ The SBA SOPs for the disaster loan program remind employees of this need for balance several times. For example, see SOP 50 30 9, p. 96, and SOP 50 52 2, pp. 6, 7, 43, 46, and 49.

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