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

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SUMMARY

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Congress took several actions to provide financial relief in the wake of the Coronavirus Disease 2019 (COVID-19) pandemic including passing the Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136). The CARES Act made numerous changes to the Small Business Administration's (SBA) programs, including expanding eligibility for Economic Injury Disaster Loans (EIDL). The CARES Act also authorized advance payments known as Emergency EIDL grants. SBA EIDLs are direct loans and provide up to $2 million for working capital including fixed debts, payroll, accounts payable and other bills that cannot be paid because of the disaster's economic impact. In contrast to EIDL, which must be repaid in full, advances were paid to EIDL applicants by SBA. The advance payments did not require repayment. SBA limited Emergency EIDL grants 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, hereinafter the Economic Aid Act), enacted on December 27, 2020, 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. 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.

Demand for SBA EIDL was significant. According to a report issued by the Small Business Administration (SBA) Office of Inspector General, SBA received 27.7 million applications for COVID EIDL by December 31, 2021. On January 1, 2022, SBA stopped accepting applications for new COVID EIDLs or advance payments (grants). As of May 6, 2022, SBA's COVID EIDL funds were exhausted and SBA stopped accepting COVID EIDL loan increase requests or requests for reconsideration. SBA closed the online COVID EIDL application portal on May 16, 2022. SBA approved over 3.9 million EIDLs totaling over $378.4 billion; disbursed 5,781,390 EIDL advances (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 has deferred repayment for all COVID EIDLs approved in calendar years 2020-2022 to 30 months from the date of the note. As it pivots to the COVID EIDL repayment phase, there are indications that some borrowers are struggling to pay off their loans. For example, one survey found that, as of December 2022, most small business owners reported that their local economy remained below pre-pandemic levels of economic activity and that only 36% of small businesses were at or exceeded pre-pandemic sales levels.

Consequently, there are current congressional discussions about the need for additional financial relief for those borrowers. These discussions include policy options such as (1) reduced interest rates, (2) loan deferments without accrued interest, and (3) loan forgiveness. Some opponents of additional financial relief for SBA COVID EIDL borrowers make arguments including that additional financial relief could promote moral hazard, create repetitive financial relief for a single incident, and/or make this type of financial relief a common practice and thus a deviation from the historical approach of providing businesses with disaster loans rather than grants. Furthermore, there may be concern that financial relief policies could compromise SBA's ability to fund disaster loans for current and future disasters at current levels of program funding.

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Introduction

The U.S. Small Business Administration (SBA) administers several types of direct disaster loans to small businesses, nonprofit organizations, homeowners, and renters. 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.[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, however, became especially acute in the wake of the Coronavirus Disease 2019 (COVID-19) pandemic's 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 EIDL, to include, for the first time, specified types of nonprofit organizations. 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. COVID EIDLs have an interest rate of 3.75% for small businesses and 2.75% for nonprofit organizations.[2] The loan terms are 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 EIDL Advance: $1,000 per employee, up to a maximum of $10,000

The CARES Act also authorized the SBA Administrator to provide 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 were not required to repay the advance payment, referred to as an Emergency EIDL grant, even if subsequently denied an EIDL. Due to anticipated demand, SBA limited Emergency EIDL grants to $1,000 per employee, up to a maximum of $10,000.

Additionally, 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 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. SBA was required to provide first priority in awarding the grants to eligible borrowers located in low-income communities that

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

[2] 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.

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 COVID EIDLs or advances, and as of May 6, 2022, SBA exhausted COVID EIDL funds and stopped accepting requests for COVID EIDL increases. SBA has now pivoted to receiving COVID EIDL payments. As described later in this report, SBA provided for the deferment of COVID EIDL to provide borrowers financial relief. However, some businesses and nonprofit organizations are still struggling to make COVID EIDL payments. Congressional concern about 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 a discussion about indications of SBA COVID EIDL hardship followed by an overview of the SBA EIDL and a description of SBA COVID EIDL maximum loan amounts and deferral policies. The report then discusses potential policy options that may provide COVID EIDL borrowers financial relief. The report concludes with a discussion about the potential drawbacks associated with providing COVID EIDL borrowers with financial relief.

Indications of 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.[3] Nevertheless, one potential indicator of hardship is the number of loans that have defaulted. SBA refers to a defaulted loan as a "charge off." SBA defines charge off as "the process by which SBA recognizes a loss and removes the uncollectible loan account from its active receivable accounts."[4] SBA's annual charge off rate is the cumulative principal balance charged off as a percentage of the total principal disbursed. This rate is expressed by the year of loan approval (referred to as a *cohort*). The cohort for SBA COVID EIDL is too young to determine aggregate charge offs because they were so recently issued. Further, on March 15, 2022, SBA extended the deferral period for all COVID EIDLs approved in calendar years 2020-2022, to 30 months from the date of the note (interest will continue to accrue).[5] For example, a 30-month deferral period for a COVID EIDL issued in December 2022 would extend deferred payments through June 2025. The extended deferral period may create additional difficulty when trying to calculate the loan charge off rate.

[3] 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.

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

[5] SBA, "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.

SBA EIDLs are 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)

Survey data can also help assess recent hardship for business owners generally. A report issued by the National Federation of Independent Business found that most small business owners reported that, as of December 2022, their local economy remained below pre-pandemic levels of economic activity.[6] The report also found that 36% of small businesses were at or exceeded pre-pandemic sales levels.[7] The survey did not include data on business closures.

SBA EIDL Overview

SBA EIDL is a long-standing disaster loan authorized by Section 7(b) of the Small Business Act. SBA has provided disaster loans under Section 7(b) since 1953. SBA EIDLs are direct loans and provide up to $2 million for working capital including fixed debts, payroll, accounts payable, and other bills that cannot be paid because of the disaster's impact.[8] 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.[9]

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.[10] In addition, EIDL proceeds cannot be used to refinance long-term debt, expand facilities, pay dividends or bonuses, or for relocation expenses.[11]

To be eligible for EIDL, applicants must have a credit history acceptable to SBA, the ability to repay the loan, and present collateral for all SBA EIDL over $25,000 if available. SBA

[6] National Federation of Independent Business, *COVID-19 Small Business Survey (23)*, December 8, 2022, p. 2, https://assets.nfib.com/nfibcom/Covid-Survey-23.pdf.

[7] Ibid.

[8] 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).

[9] SBA, "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").

[10] Ibid.

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

collateralizes real estate or other assets when available, but it will not deny a loan for lack of collateral.[12]

SBA EIDL interest rates are determined by formulas established in law (discussed later) and are fixed for the life of the loan. EIDL interest rate ceilings are statutorily set at no more than 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.[13] 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).

COVID EIDL Maximum Loan Amounts and Program Termination

The maximum loan amount for COVID EIDLs has fluctuated since the program started due to budgetary concerns. Some key maximum limit changes include

- on May 3, 2020, SBA reduced the maximum loan amount for a COVID EIDL to $150,000;
- on March 24, 2021, SBA increased the maximum loan amount from $150,000 to $500,000 (effective as of April 6, 2021);[14] and
- on September 9, 2021, SBA increased the COVID EIDL maximum loan amount from $500,000 to $2 million (effective as of October 8, 2021).[15]

On January 1, 2022, SBA stopped accepting applications for new COVID EIDL loans or advances. As of May 6, 2022, SBA's COVID EIDL funds were exhausted and SBA stopped accepting COVID EIDL loan increase requests or requests for reconsideration. SBA closed the online COVID EIDL application portal on May 16, 2022.

[12] SBA, "Fact Sheet."

[13] Ibid.

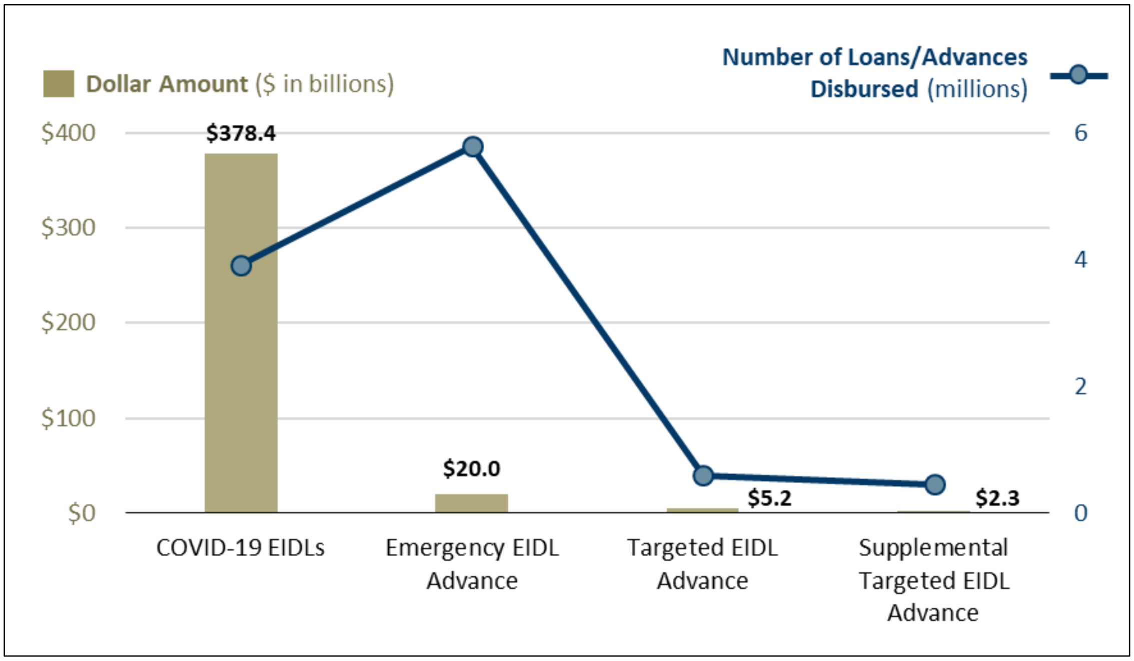
[14] SBA, "SBA to Increase Lending Limit for COVID-19 Economic Injury Disaster Loans," March 24, 2021, at https://www.sba.gov/article/2021/mar/24/sba-increase-lending-limit-covid-19-economic-injury-disaster-loans.

[15] SBA, "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.

At the time of this report's publication, SBA had approved over 3.9 million EIDL loans totaling over $378.4 billion; disbursed 5,781,390 EIDL advances (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.[16]

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

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



Source: SBA, "Disaster Assistance Update Nationwide 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.

Deferred COVID EIDL Repayments

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 defer payments on existing disaster loans through December 31, 2020, "to help borrowers during this unprecedented time." SBA also announced that payments on new EIDLs would be deferred for one year (although interest would continue to accrue).[17]

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[16] SBA, "Disaster Assistance Update Nationwide 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.

[17] SBA, "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.

On March 12, 2021, SBA extended the deferment period for all 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.[18]

On September 9, 2021, SBA announced the deferral of 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."[19] 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).[20]

SBA Hardship Accommodation Plan

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.[21] 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
- if necessary, borrowers may be able to renew the Hardship Accommodation Plan.[22]

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 deferments, and reduced interest rates. In addition, Congress may also consider establishing a grant program to help businesses that are having difficulty repaying their COVID EIDL.

If Congress investigates financial relief policy options, it could consider whether all COVID EIDL borrowers should be eligible for assistance. Congress may also consider establishing certain

[18] SBA, "SBA Extends Deferment Period for all COVID-19 EIDL and Other Disaster Loans until 2022," March 12, 2021.

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

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

[22] Ibid.

eligibility requirements for financial relief. Both approaches, however, could be problematic. For example, while providing blanket relief to all borrowers may be expedient, it may provide relief to borrowers who are not struggling and are capable of repaying their EIDL in full. Eligibility criteria may help identify businesses in need of financial relief, but some businesses could default on their loan or shutter before getting the relief due to the time required to review applications and process relief determinations.

As will be discussed later in this report, SBA relies on disaster loan repayments to help fund the program. Relief policies could have a significant financial impact on the agency under its current funding model, particularly given the high volume of COVID EIDLs.

Loan Forgiveness

Since it began providing disaster assistance to businesses in the 1930s, Congress, while sympathetic to struggling businesses, has limited federal disaster assistance to loans rather than offering grants. Disaster loan forgiveness has been rare. 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 aforementioned, SBA business disaster assistance is usually limited to small businesses that cannot otherwise receive credit in the private market at reasonable terms and conditions.[23] Therefore, SBA disaster loans are considered a last resort for businesses seeking disaster assistance.

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.

Hurricane Betsy Disaster Loan Forgiveness

President Lyndon B. Johnson signed the Southeast Hurricane Disaster Relief Act of 1965.[24] 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.[25]

Paycheck Protection Program Loan Forgiveness

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.[26] 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).[27]

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

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

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

[26] An overview of PPP is provided in the **Appendix A** of this report.

[27] 15 U.S.C. §636m(d). The borrower could choose from several methods of determining base employment: (1)

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).[28]

Loan forgiveness for 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 of a percentage of the loan. Further, borrowers could be required to meet certain criteria to be eligible for loan forgiveness, such as purchasing disruption insurance, or, similar to PPP, agreeing to retain employees on the payroll for a specified amount of time.

Loan Deferments

As noted, SBA has administratively provided payment deferrals for COVID EIDLs, allowing interest to accrue during the deferment. Congress could establish long-term COVID EIDL deferrals, with or without accrued interest. For example, Congress could legislatively defer 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 COVID EIDL.

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, provide grants to individuals, certain nonprofits, and state, local, tribal, and territorial governments following a disaster. Congress could consider administering the 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 notably 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.[29]

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.

[28] 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.

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

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 may 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 COVID EIDLs that do not offer forgiveness. Grant recipients, however, 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 do 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).

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.[30] As previously noted, 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 COVID EIDLs. Because demand for COVID EIDLs was significant, 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 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

[30] 15 U.S.C. §636(d)(5)(C).

might compromise SBA's ability to cover the costs of administering the disaster loan program (see "Funding the SBA Disaster Loan ").

Financial Relief Considerations

The following section discusses additional considerations related to providing COVID EIDL borrowers with financial relief. These include the costs to the federal government, moral hazard concerns, and potentially redundant relief efforts.

Congress designed EIDL as a disaster loan made 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.[31] 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.

Definition of Subsidy Rate

A subsidy rate is the net long-term cost to the federal government to guarantee (or directly make) loans, expressed as a percentage of the total outstanding loan balance. Specifically, the net long-term cost is computed as the present value of the estimated cash outflows (paid by the government to reimburse lenders for loan defaults) minus the present value of the estimated cash inflows generated by the loans (payments and fees collected from borrowers and lenders).[32] 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.[33] Next, the net long-term cost is divided by the aggregate unpaid principal loan balance, 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. 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.[34]

Figure 2 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.[35]

[31] 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.

[32] 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 2023 Subsidy Estimates," Office of Management and Budget, *Credit Supplement: Budget of the U.S. Government*, FY2024, p. 12, https://www.whitehouse.gov/wp-content/uploads/2023/03/cr_supp_fy2024.pdf.

[33] 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.

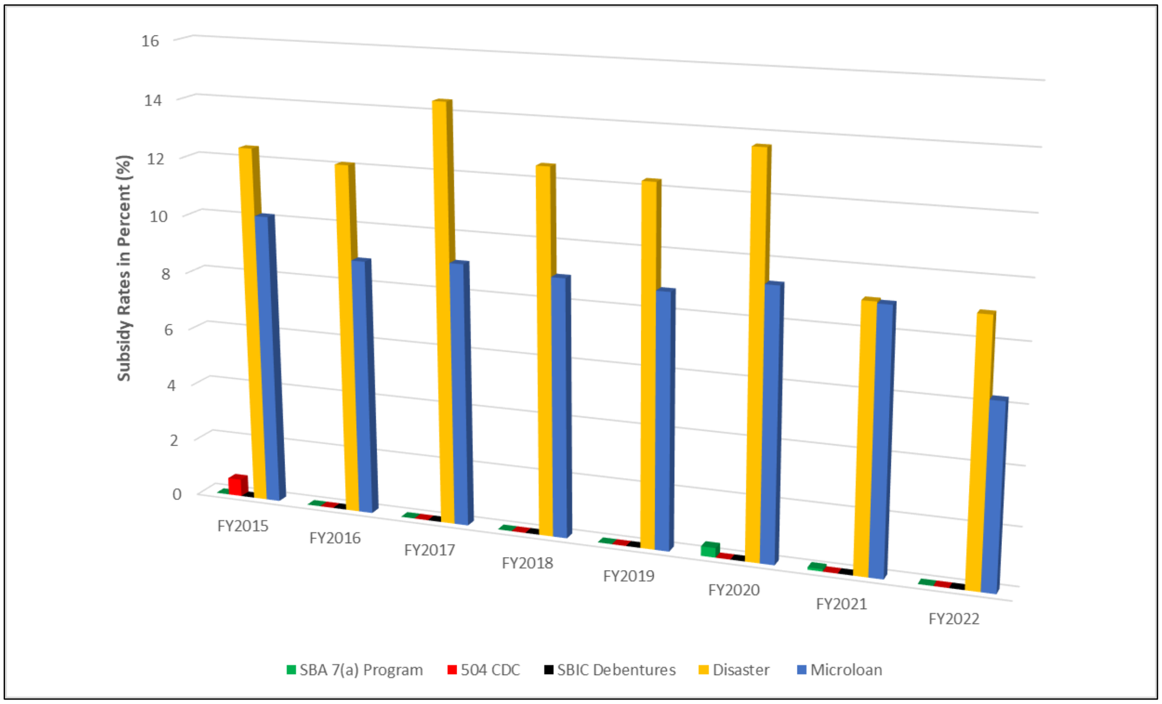
[34] See U.S. Government Accountability Office, *Credit Reform: Transparency Needed for Evaluation of Potential Federal Involvement in Projects Seeking Loans*, GAO-22-105280, July 28, 2022, p. 7, https://www.gao.gov/assets/gao-22-105280.pdf.

[35] 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

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.[36] 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.[37] 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).

Figure 2. Credit Subsidy Rates for Selected SBA Programs

FY2015-FY2023



Source: SBA, "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 distorting scaling effects.

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.

[36] 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.

[37] The subsidy rate for SBA administers the Microloan Program and Paycheck Protection Program (PPP). Although the loans may reside on the balance sheets of private lenders, SBA holds all of the default risk. See Sriya Anbil, Mark Carlson, and Mary-Frances Styczynski, *The Effect of the PPPLF on PPP Lending by Commercial Banks*, Board of Governors of the Federal Reserve System, Finance and Economics Discussion Series 2021-030, April 20, 2021, https://www.federalreserve.gov/econres/feds/files/2021030pap.pdf. 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.

SBA reports that the positive credit subsidy (due to program losses) associated with EIDL consists of approximately $8.5 billion of funds dispersed without proper verification of eligibility using official tax information, as well as approximately $92 million dispersed to businesses with suspect taxpayer identification numbers.[38]

Based on the above, it should be noted that wide-ranging forms of financial relief may complicate the ability to retrieve misallocated funds. Furthermore, greater repayment of loans by borrowers reduces costs that otherwise would ultimately be borne by taxpayers.

Funding the SBA Disaster Loan Account

If Congress provides financial relief to 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 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 who does not bear the full costs associated with a bad outcome, and also lacks 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 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

[38] See SBA Inspector General Inspection Report, *Follow-Up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants*, Report Number 22-22, September 29, 2022, p. 2, https://www.sba.gov/document/report-22-22-follow-inspection-sbas-internal-controls-prevent-covid-19-eidls-ineligible-applicants.

- SBA approved 11.3 million PPP loans, totaling $785.8 billion, of which $755.7 billion has been forgiven;[39]
- 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**).[40]

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 protect 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. The EIDL program 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.

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.[41] 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.

Relief Strategy Applications

If Congress were to provide financial relief to COVID EIDL borrowers, it may consider two strategies: (1) establishing needs-based criteria for relief; and (2) 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

[39] 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.

[40] SBA, "Disaster Assistance Update Nationwide 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.

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

in developing needs-based criteria. The drawback to this approach, however, is that SBA may establish criteria that do not align with the intent of Congress. Another drawback is that verifying whether the business meets the criteria could be time-consuming, 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 COVID EIDL borrowers. This policy option may be timelier and prevent delays. The drawback to this policy option, however, is that businesses capable of repaying their loans will receive financial assistance. Blanket financial relief may therefore seem unfair to some. Another drawback is that this policy option may cost the federal government more money compared to providing relief to borrowers that meet certain eligibility requirements.

Implications of Expanding Financial Relief

As mentioned previously, Congress has historically provided disaster loans rather than grants to businesses.[42] For the first time, the CARES Act authorized advances for an incident deemed a disaster, and loan forgiveness is rare.[43] Some 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.

SBA Disaster Loans for other Natural Disasters

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 1**).

Table 1. 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**

[42] See the historical discussion about disaster assistance to businesses in the **Appendix B**.

[43] As noted in this report, loan forgiveness was provided in response to Hurricane Betsy in 1965 as well as the COVID-19 pandemic.

Source: Based on data provided by SBA.

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 COVID EIDL borrowers, it should also provide it to borrowers with loans associated with natural disasters. Others, however, may be concerned about the cost implications of financial relief becoming an accepted practice for SBA disaster loans.

Concluding Observations

Throughout the years, Congress has expressed interest and concern for businesses recovering from disasters. For nearly a century, the federal government's policy for providing disaster assistance to businesses has been limited primarily to low-interest loans rather than grant assistance. Included in this policy is the provision of disaster loans to businesses and nonprofit organizations unable to get loans in the private market.

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 with the importance of small businesses to the national economy, they may be concerned about the implications the financial relief could have on the future of 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.

COVID EIDLs have a 30-year repayment period and SBA has disbursed a significant amount of COVID EIDLs, both in terms of number of loans and dollar amount. As such, the question of financial relief for 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.

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 certain types of other entities not generally eligible for SBA business assistance, such as nonprofit organizations.[44]

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.[45] The maximum PPP loan was $10 million. The average PPP loan was about $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.[46] 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.[47]

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[44] 15 U.S.C. §636(a)(36)(D).

[45] 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.

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

[47] 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 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.[48] When Congress did provide financial assistance, it was generally on an ad hoc basis.[49] 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.[50]

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.[51]

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:

> 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.[52]

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

[49] 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.

[50] 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.

[51] Ibid., p. 18.

[52] 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).[53] 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."[54] 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.[55]

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.[56] 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 businesses with funds to pay up to eight weeks of payroll costs including benefits. The funds could also be used to pay interest on mortgages, rent, and utilities. PPP loans made to eligible borrowers qualified for full loan forgiveness if during the 8- to 24-week covered period following loan disbursement:

- employee and compensation levels are maintained;
- the loan proceeds are spent on payroll costs and other eligible expenses; and
- at least 60% of the proceeds are spent on payroll costs.

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.

[53] 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.

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

[55] 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).

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

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 businesses that experienced COVID-19-related revenue loss. Unlike most SBA programs, the grants were available to businesses of any size. 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.

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