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SBA slashes disaster-loan limit from \$2 million to \$150,000, shuts out nearly all new applicants

Shortage of money and crush of applications leads the Small Business Administration to close its portal to most businesses and limit the size of loans.



Treasury Secretary Steven Mnuchin discusses economic relief plans at a coronavirus response briefing as Jovita Carranza, administrator of the Small Business Administration, listens. (Tom Brenner/Reuters)

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An emergency disaster lending program for small businesses has been so overwhelmed by demand that it has significantly limited the size of loans it issues, while blocking nearly all new applications from small businesses, according to people familiar with the situation.

The Economic Injury Disaster Loan program is a long-standing Small Business Administration program that's separate from the new Paycheck Protection Program, which has challenges of its own.

Congress gave the disaster loan program more than \$50 billion in new funding in recent relief bills to offer quick-turnaround loans to businesses slammed by the [coronavirus](#) pandemic. But by many accounts, it is failing spectacularly. After initially telling businesses that individual disaster loans could be as high as \$2 million, SBA has now imposed a \$150,000 limit without publicly announcing the change, said people familiar with the situation who were not authorized to speak publicly.

Additionally, the agency has faced a backlog of millions of applications for the disaster loan program for the past several weeks, several SBA officials have said.

The SBA has been so overwhelmed by demand that it is now allowing only agricultural interests to submit applications as it works through an enormous backlog. Key Republican senators had been pushing hard for farmers and agriculture companies to be able to tap the program, and they are now being prioritized over other prospective borrowers.

Agency officials have said the holdup is because of a lack of funding and an unprecedented crush of applications.

“At this time, only agricultural business applications will be accepted due to limitations in funding availability and the unprecedented submission of applications already received,” according to a [statement](#) on the SBA’s website.

SBA public affairs employees declined to comment on the new loan limit, and did not include it in a Monday news release about the program. James Rivera, who runs the program as associate administrator at the Office of Disaster Assistance, did not respond to a request for an interview.

The disaster loans program is different from the \$669 billion Paycheck Protection Program (PPP), which is run by private banks and regulated by the SBA. While the PPP is focused narrowly on keeping small businesses from laying off employees and encouraging them to rehire workers, the disaster loans are meant as an economic lifeline to help small businesses survive the crisis. It is a preferred option for some of the smallest businesses because the loan size does not depend on the number of employees.

The SBA has released little information on the disaster loan program. In [an April 24 document](#) the agency disclosed that it had processed 38,984 loans totaling roughly \$8 billion, which would amount to less than one percent of SBA’s total backlog.

Alejandro Contreras, a spokesman for the SBA’s Office of Disaster Assistance, did not respond to repeated requests for an updated count on the number of EIDL loans approved. The SBA is yet to release loan-specific data for either program.

The Economic Injury Disaster Loan program, known as EIDL, is a long-standing SBA program that is accustomed to dealing with geographically contained disasters, such as hurricanes, tornadoes and wildfires. It was part of the federal response to Hurricane

Katrina in 2005, Hurricane Sandy in 2012 and the wildfires that swept the West Coast last year.

The SBA's Office of Disaster Assistance, which oversees the disaster loan program, has occasionally been criticized for moving too slowly.

A [2014 study](#) by the nonpartisan Government Accountability Office found that the agency took an average of 38 days to process its economic injury loans after Hurricane Sandy, overshooting its 21-day goal.

The SBA has also been criticized for not implementing certain components of a 2008 law meant to improve the organization's readiness following Hurricane Katrina. That law, called the Small Business Disaster Response and Loan Improvements Act of 2008, directed the SBA to set up a program that could offer \$25,000 bridge loans in less than 36 hours.

The SBA did not implement that program or two others required under the law, according to the GAO. Agency officials told the GAO and members of Congress that they declined to do so because lenders were not interested, although the GAO countered that the SBA did not conduct "a formal documented evaluation of lenders' feedback."

The GAO also noted in its 2014 report that the SBA's readiness was partly affected by problems with the E-Tran computer system that private lenders use to verify loan applications with the SBA. In its report, the GAO said the SBA was working on a new system called SBA One.

Although it is unclear whether SBA One was completed, the older E-Tran system is still being used. It has crashed repeatedly in recent weeks, interfering with the SBA's coronavirus response.

In its 2014 report, the GAO said the SBA's failure to learn from past disasters could hurt its readiness for future ones. The warning about the agency's inability to face a future crush of applications during a disaster was prescient.

"Without taking its experience with early application submissions after Hurricane Sandy into account in its disaster planning documents and analyzing the potential risk early submissions may pose for timely disaster response, SBA may be unprepared for a large volume of applications to be submitted quickly following future disasters, which may result in delays in loan funds for disaster victims," the GAO wrote in its report.

The coronavirus presents a crisis that bears little resemblance to the natural disasters the SBA has responded to in the past. The virus has shut down businesses in all 50 states and prompted more than 33 million job losses in nearly every industry.

Although the Paycheck Protection Program received significantly more funding from Congress, the disaster loan program is considered a crucial component of the Trump administration's coronavirus response.

Lawmakers gave it new tools and new funding under the \$2.2 trillion Cares Act economic stimulus bill, hoping it could serve as a short-term bridge while businesses wait for the larger Paycheck Protection Program loans. It was expanded on March 12 to include businesses affected by the pandemic, weeks before the Paycheck Protection Program started on April 3.

However, it was quickly overwhelmed by an unprecedented crush of applications in late March and early April as the economic crisis deepened. It received several million applications in the first few days it was activated, an SBA official told business owners in a recent webinar.

The program ran out of funding last month, prompting Congress to divert more resources to it. In late April, Congress allocated an additional \$50 billion for the loans, alongside \$320 billion for the Paycheck Protection Program, \$75 billion for hospitals and health-care workers, and \$25 billion for coronavirus testing.

The SBA's failure to release detailed information about the disaster loans has prompted harsh criticism from members of Congress.

In a Wednesday [letter](#) addressed to SBA Administrator Jovita Carranza, 103 lawmakers criticized the agency for not communicating effectively. They urged the SBA to inform small businesses about where they stand in the application process and also update Congress daily.

"Many small businesses have been without meaningful information from the SBA for weeks," the lawmakers wrote.

In a separate [letter](#), a bipartisan group of lawmakers asked for more information on a data breach that exposed nearly 8,000 businesses' information online.

Sen. Marco Rubio (R-Fla.), who has been closely involved in the small business lending programs as the leader of the Senate Committee on Small Business and Entrepreneurship, cheered the decision to provide loans to small businesses moving forward. He also promised close oversight of the program.

"I will continue to oversee congressional oversight efforts to ensure the agency is expeditiously processing EIDL grants and loans," Rubio wrote in a May 5 news release. "It is imperative that those small businesses who have already submitted paperwork receive this assistance quickly."