

         9113 Church St., Manassas, VA 20110-5457



**Small Business Administration’s Economic Injury Disaster Loan**

1. **BACKGROUND**

Since 1953, the Small Business Administration (SBA) has been a major source of assistance for the restoration of commerce in areas stricken by natural and human-caused disasters. The SBA has long provided federal assistance to businesses and individuals through the disbursement of disaster loans amounting to the approval of [1.9 million loans for a total of more than $47 billion](https://www.hsdl.org/?view&did=718931) as of 2011. Due to the effectiveness of the SBA’s disaster loan program, Congress has bolstered the program in the wake of events such as Hurricanes Katrina and Sandy and is currently relying on the SBA’s Economic Injury Disaster Loans (EIDL) to help businesses remain financially healthy through the COVID-19 pandemic.

1. **ECONOMIC INJURY DISASTER LOAN**

As a result of states imposing shelter-in-place orders to reduce the number of COVID-19 infections, Congress allocated additional EIDL funding so that businesses directly affected by COVID-19 could receive emergency loans. The SBA originally allowed businesses and nonprofits with 500 or fewer employees to apply for a loan up to $2 million at a rate of 3.75% for businesses and 2.75% for nonprofits with up to a 30-year repayment term. However, due to the economic uncertainty that came from shelter-in-place orders, the SBA was quickly overwhelmed by the high volume of applications for EIDLs and the SBA was forced to place stricter limits on the program. In early May, the SBA blocked all new applications for EIDL loans and only permitted agricultural businesses to apply. The SBA also changed the total amount a business applying for a loan could receive and capped that amount at $150,000. As of June 15, 2020, the SBA reopened the EIDL program and began accepting new applications from eligible small businesses. [Click here](https://covid19relief.sba.gov/#/) for a link to the EIDL application form.

1. **BENEFITS OF THE ECONOMIC INJURY DISASTER LOAN**

* Businesses with 500 or fewer employees
* Maximum loan amount capped at $150,000 at 3.75% interest for businesses and 2.75% for non-profits
* Can use loan funds to pay for business expenses that would not be forgiven by Paycheck Protection Program (PPP) funds **(NOTE: It is not recommended that a borrower use EIDL funds to pay for expenses that would be forgiven if paid for with PPP funds)[[1]](#footnote-1)**
* SBA offers up to 30-year loan repayment periods
* First loan payment is deferred for one year
* Approval can be based on a credit score and no first-year tax returns are required
* Maximum unsecured loan amount is $25,000
* There is no obligation to take the loan, if offered
* Borrower can request an EIDL Advance of up to $10,000 ($1,000 per-employee) that does not have to be repaid. **Note that a business can apply for an EIDL Advance without applying for an EIDL Loan. Also, if a business has PPP funds and receives an EIDL Advance, PPP forgiveness will be reduced by the amount received in the EIDL Advance.**

1. **DISADVANTAGES OF THE ECONOMIC INJURY DISASTER LOAN**

* The EIDL is a loan and cannot be forgiven like a PPP
* Businesses will have to repay the loan with interest
* EIDLs over $25,000 require the borrower to post collateral
* SBA will take real estate as collateral
* SBA will not decline a loan for lack of collateral but will require borrowers to pledge what is available
* A borrower cannot sell, lease, license, or transfer any part of the collateral or interest in the collateral without the SBA’s consent (with the exception of inventory used in the ordinary course of business)
* A borrower will need SBA approval to change its ownership or business structure
* EIDL funds cannot be used for physical improvements and can only be used as “working capital”
* If a borrower is in default of the loan terms the entirety of the loan would become immediately payable
* Issues with repayment of the loan will hurt a borrower’s credit score
* Additional record keeping and costs associated with complying with the loan agreement

1. **CONCLUSION**

Not every business should apply for an EIDL. A business must carefully evaluate whether it makes sense to take on debt. **It is strongly recommended that a business consult with its accountants and attorneys prior to accepting an EIDL**. **This information provided does not, and is not intended to, constitute legal or accounting advice and is general in nature. If you need further information please reach out to your attorney or accountant.**

1. PPP forgivable expenses include payroll, mortgage interest payments on real or personal property (if mortgage executed prior to 2/15/20), rent on real and personal property (if lease executed prior to 2/15/20), and utilities (electricity, gas, water, internet, telephone, and transportation). [↑](#footnote-ref-1)