United States Government Accountability Office

Report to Congressional Addressees

July 2021

ECONOMIC INJURY DISASTER LOAN PROGRAM

Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks

A Century of Non-Partisan Fact-Based Work

GAO-21-589

Highlights

Highlights of GAO-21-589, a report to congressional addressees

Why GAO Did This Study

Between March 2020 and February 2021, SBA provided about 3.8 million low-interest EIDL loans and 5.8 million grants (called advances) totaling $224 billion to help small businesses adversely affected by COVID-19. Borrowers can use these low-interest loans and advances to pay for operating and other expenses.

The CARES Act includes a provision for GAO to monitor funds provided for the COVID-19 pandemic. This report examines, among other objectives, the characteristics of program applicants and recipients; the challenges EIDL applicants experienced and the extent to which SBA has addressed them; and the steps SBA has taken to address risks of fraud and provision of funds to ineligible applicants.

GAO reviewed documents from SBA, an EIDL contractor, and two of its subcontractors. In addition, GAO analyzed loan application data, conducted five discussion groups with applicants, and interviewed staff from SBA, six Small Business Development Centers, and six business associations. GAO also analyzed socioeconomic, demographic, and geographic data on EIDL program participants.

What GAO Recommends

GAO recommends that SBA develop a comprehensive communications strategy that includes guidelines for the type and timing of information to be provided to potential and actual applicants of its disaster response programs. SBA agreed with the recommendation.

View GAO-21-589. For more information, contact William B. Shear at (202) 512-8678 or ShearW@gao.gov.

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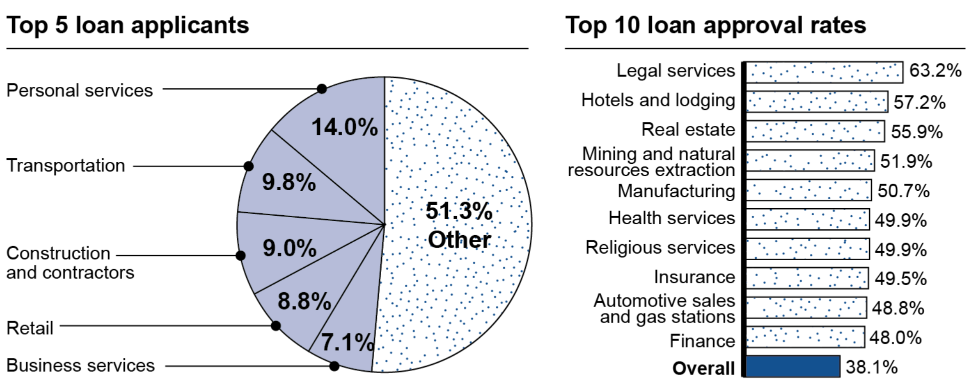
What GAO Found

Economic Injury Disaster Loan (EIDL) applicants and recipients varied in terms of business size, years in operation, and industry, based on GAO's analysis of Small Business Administration (SBA) data from March 2020 through February 2021:

- **Business size**. A majority of EIDL applicants (about 81 percent) and EIDL recipients (about 86 percent) were smaller businesses (10 or fewer employees).
- **Years in operation.** A majority of EIDL applicants (about 63 percent) had been in operation for less than 5 years. However, businesses in operation for more than 5 years received the majority of total EIDL loan dollars and had higher approval rates compared to newer businesses.
- **Industry.** Businesses in the personal services and transportation industries made up the largest share of applicants, while those in the legal services and lodging industries were approved for loans at the highest rates (see figure).

Top Loan Applicants and Approval Rates by Business Industry



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

In addition, small businesses in counties with higher median household income, better internet access, and more diverse populations generally received more loans per 1,000 businesses and larger loans.

EIDL applicants have faced a number of challenges, according to applicants and other business stakeholders GAO interviewed between August 2020 and February 2021. For example, applicants from five discussion groups and several stakeholders cited lack of information and uncertainty about application status as major concerns. In addition, until February 2021, SBA did not provide important information to potential applicants, such as limits on loan amounts and definitions of certain program terms. Lack of important program information and application status put pressure on SBA's resources and negatively affected applicants' experience. For example, SBA's customer service line experienced call surges that resulted in long wait times, and SBA's data showed that 5.3 million applications were duplicates. SBA's planning documents describe in general terms the public outreach to be conducted following disasters, but they do not detail the type or timing of the information to be provided. Developing and implementing a comprehensive communication strategy that includes these details could improve the quality, clarity, and timeliness of information SBA provides to its applicants and resource partners following catastrophic disasters.

GAO's ongoing review of the EIDL program related to COVID-19 has found that the program is susceptible to providing funding to ineligible and fraudulent applicants. For example, as GAO reported in January 2021, SBA had approved at least 3,000 loans totaling about $156 million to businesses that SBA policies state were ineligible for the EIDL program, such as real estate developers and multilevel marketers, as of September 30, 2020. In addition, GAO found that between May and October 2020, over 900 U.S. financial institutions filed more than 20,000 suspicious activity reports related to the EIDL program with the Financial Crimes Enforcement Network. Further, GAO's analysis of 51 Department of Justice cases involving fraud charges for EIDL loans as of March 2021 found that these cases involved identity theft, false attestation, fictitious or inflated employee counts, and misuse of proceeds.

Over the course of its COVID-19 response, SBA has made some changes to address these risks. For example, beginning in June 2020, SBA took actions to improve loan officers' ability to withhold funding for applicants suspected of fraud. However, SBA has not yet implemented recommendations GAO has previously made to address EIDL program risks.

- In January 2021, GAO recommended that SBA conduct data analytics across the EIDL portfolio to detect potentially ineligible and fraudulent applications (GAO-21-265). SBA did not agree or disagree with this recommendation. However, in May 2021, SBA officials stated the agency was in the process of developing analysis to apply certain fraud indicators to all application data.
- In March 2021, GAO recommended that SBA (1) implement a comprehensive oversight plan to identify and respond to risks in the EIDL program, (2) conduct and document a fraud risk assessment, and (3) develop a strategy to address the program's assessed fraud risks on a continuous basis (GAO-21-387). SBA agreed with all three recommendations. In May 2021, SBA officials stated that the agency had started to assess fraud risk for the program.

Fully implementing these recommendations would help SBA to safeguard billions of dollars of taxpayer funds and improve the operation of the EIDL program.

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Abbreviations

COVID-19	Coronavirus Disease 2019
DOJ	Department of Justice
EIDL	Economic Injury Disaster Loan
FAQ	frequently asked questions
Federal Reserve	Board of Governors of the Federal Reserve System
FinCEN	Financial Crimes Enforcement Network
MSA	metropolitan statistical areas
OIG	Office of Inspector General
SBA	Small Business Administration
SBDC	Small Business Development Center
USDA	U.S. Department of Agriculture
ZCTA	ZIP code tabulation area

441 G St. N.W.
Washington, DC 20548

July 30, 2021

Congressional Addressees

Coronavirus Disease 2019 (COVID-19) has adversely affected most of the more than 30 million small businesses in the United States through decreased revenue or business closures. To assist small businesses and nonprofits affected by the pandemic, Congress appropriated funding and eased borrowing requirements for the Economic Injury Disaster Loan (EIDL) program. The EIDL program, which is administered and implemented by the Small Business Administration (SBA), provides low-interest loans to help borrowers meet obligations or pay ordinary and necessary operating expenses. In addition, Congress appropriated funding to create grants—known as advances—for EIDL applicants; these advances do not have to be repaid. The program provided about $230 billion in loans and advances to small businesses and nonprofits between March 2020 and May 2021.

We were asked to review how SBA administered the EIDL program in response to the COVID-19 pandemic. In addition, the CARES Act includes a provision for us to monitor and oversee the use of funds made available to prepare for, respond to, and recover from the COVID-19 pandemic.[1] For this report, we examined (1) challenges SBA and EIDL applicants experienced as part of SBA's implementation of the EIDL program in response to COVID-19 and the extent to which SBA has addressed these challenges; (2) the EIDL program's effects on its participants, including the effects of loan limits SBA put in place; (3) steps SBA has taken to address risks of fraud and provision of funds to ineligible applicants; and (4) the characteristics of program applicants and recipients. The EIDL loan program existed prior to the pandemic, but Congress has made legislative changes to modify the program in response to COVID-19, including the addition of EIDL advances. This report focuses on SBA's implementation of EIDL since the start of the pandemic.[2]

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[1]Pub. L. No. 116-136, § 19010, 134 Stat. 281, 579-80 (2020).

[2]We regularly issue government-wide reports on the federal response to COVID-19. For the latest report, see GAO, *COVID-19: Continued Attention Needed to Enhance Federal Preparedness, Response, Service Delivery, and Program Integrity*, GAO-21-551 (Washington, D.C.: July 19, 2021). Our next government-wide report will be issued in October 2021 and will be available on GAO's website at https://www.gao.gov/coronavirus.

To address the first objective, we reviewed relevant legislation and SBA's guidance, policies, procedures, contracts, and other material for the EIDL program. In addition, we reviewed SBA data on EIDL program processing times, staffing, and Customer Service Center call wait times. To assess the reliability of these data, we interviewed SBA officials. We determined these data were reliable for the purpose of reporting on SBA's loan processing volumes and times, staffing levels, and Customer Service Center call wait times and call volumes. We also interviewed officials from SBA's Office of Disaster Assistance.

In addition, we interviewed representatives from a nongeneralizable sample of six state or regional Small Business Development Centers (SBDC), the national association representing SBDCs, two associations representing small businesses nationwide, and four industry-specific business associations.[3] Collectively, we refer to the SBDCs and associations as stakeholders. We selected the SBDCs based on a few factors, including that the Census Bureau's Small Business Pulse Survey showed that the state or region in which they are located experienced a large negative impact from the pandemic and had a high share of small businesses receiving EIDL funding.[4] We chose industry-specific associations that reflect industries that were substantially affected by the pandemic and had large numbers of EIDL borrowers, based on our review of the Census Bureau's Small Business Pulse Survey and SBA loan data.

We also held five discussion groups with EIDL program applicants to learn about their experience with the program—two groups of applicants that were declined for loans and three groups that were approved. Each group consisted of four to six participants, and we spoke with 22 EIDL applicants in total. Discussion groups are intended to generate in-depth information about the reasons for participants' views on specific topics. While we report our findings by the number of discussion groups in which a topic was discussed, this does not necessarily mean that there was a consensus or agreement among all discussion group participants on a

[3]SBA partially funds SBDCs, which offer counseling, training, and technical assistance to current and prospective small businesses.

[4]The Small Business Pulse Survey measures the effect of changing business conditions during the pandemic on small businesses, including whether small businesses received EIDL funding.

given topic. The opinions expressed by the participants represent their points of view and may not represent the views of all EIDL applicants.

To address the second objective, we obtained information from SBA about the number of borrowers affected by the loan limits SBA put in place. We interviewed SBA representatives and the stakeholders noted above about the impact of these limits and the impact of the program. We also asked participants in the discussion groups described above about these topics.

To address the third objective, we reviewed prior GAO reports and reports from SBA's Office of Inspector General and SBA's independent financial statement auditor. We interviewed SBA officials about their controls for ensuring eligibility and addressing fraud risk. We also obtained written responses and other documentation from SBA's EIDL contractor and subcontractors about the services they provided and their interactions with SBA. To characterize fraud cases and schemes used to obtain EIDL funds, we analyzed 51 fraud-related cases based on information provided in Department of Justice (DOJ) and federal court documents from May 2020 to March 2021.

To address our fourth objective, we analyzed SBA data on loan applications submitted between March 14, 2020, and February 28, 2021. We combined these data with county-level data from the Census Bureau and Department of Agriculture to examine the socioeconomic, demographic, and geographic characteristics of the counties in which approved and denied applicants were located. For four metropolitan statistical areas, we also combined SBA's EIDL applicant data with Census Bureau data at the ZIP code tabulation area level to examine the socioeconomic and demographic characteristics of ZIP code tabulation areas in which applicants and borrowers were located.[5] We reviewed documentation related to the data used and determined that the data were reliable for describing the characteristics of the communities in which EIDL applicants were located. For more information about our objectives, scope, and methodology, see appendix I.

[5]The Census Bureau defines metropolitan statistical areas as having at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. ZIP code tabulation areas are generalized areal representations of U.S. Postal Service ZIP code service areas, which are not areal features but a collection of mail delivery routes.

We conducted this performance audit from July 2020 to July 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Legislative Changes to EIDL in Response to COVID-19

The Small Business Act authorizes SBA to make EIDL loans to eligible small businesses and nonprofit organizations located in a disaster area. In response to COVID-19, Congress provided additional funding for the existing EIDL program to support small businesses through several legislative actions and temporarily changed certain EIDL program application requirements that were in place under the Small Business Act (see table 1). On March 6, 2020, Congress deemed COVID-19 a disaster under the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020, making financial obligations that could not be met as a result of COVID-19 an eligible expense for the EIDL program. At that time, SBA had about $1.1 billion in loan credit subsidy available to support about $7–$8 billion in disaster loans.[6] On April 16, 2020, SBA announced that this funding had been exhausted. On April 24, 2020, Congress provided $50 billion in loan credit subsidy, which would support about $470 billion in EIDL loans.

[6]Loan credit subsidy covers the government's cost of extending or guaranteeing credit and takes into consideration the estimated cash flows to and from the government. Loan credit subsidy represents the estimated long-term cost of providing loans and takes into account expected future loan performance, including loan repayments, prepayments, defaults, recoveries, and the timing of these events. The loan credit subsidy cost was 13.62 percent and 8.92 percent for fiscal years 2020 and 2021, respectively. For fiscal year 2020, this means that the estimated cost was $13.62 per $100 of disaster loans provided.

Table 1: Key Legislation Affecting the Economic Injury Disaster Loan (EIDL) Program in Response to COVID-19

Legislation and date enacted	Appropriation amount	Key provisions and changes
Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020 March 6, 2020	None	• Deemed COVID-19 a disaster under the Small Business Act, making economic injury caused by COVID-19 eligible for EIDL loans
CARES Act March 27, 2020	$10 billion for EIDL advances	• Authorized the Small Business Administration (SBA) to provide eligible applicants with EIDL advances of up to $10,000 that do not need to be repaid • Removed the requirement that applicants must not be able to obtain credit elsewhere • Expanded eligibility for the EIDL program • Restricted SBA from obtaining federal tax transcripts as part of the EIDL application process
Paycheck Protection Program and Health Care Enhancement Act April 24, 2020	$10 billion for EIDL advances and $50 billion for loan subsidies	• Expanded EIDL eligibility to agricultural enterprises previously ineligible
Consolidated Appropriations Act, 2021 December 27, 2020	$20 billion for targeted EIDL advances	• Removed restriction that SBA cannot obtain federal tax transcripts as part of the EIDL application process • Extended deadline to apply for EIDL loans and advances by 1 year, from December 31, 2020, to December 31, 2021 • Provided targeted advances up to the full amount of $10,000 to certain eligible businesses and nonprofits that have not more than 300 employees, are located in low-income areas, and have experienced greater than 30 percent loss in income
American Rescue Plan Act of 2021 March 11, 2021	$10 billion for targeted EIDL advances and $5 billion for supplemental targeted EIDL advances	• Provided additional funding for targeted advances of up to $10,000 for the same entities eligible under the Consolidated Appropriations Act, 2021 • Provided an additional $5,000 in supplemental targeted advances for eligible entities in low-income communities that suffered economic loss of greater than 50 percent and employed not more than 10 employees

Source: GAO analysis of legislation. | GAO-21-589

In addition to funding for loans, Congress provided funding for EIDL advances—grants that do not need to be repaid—which were previously not an element of the EIDL program. In March and April of 2020, Congress authorized SBA to provide $20 billion in advances of up to $10,000 to EIDL applicants, even if they did not qualify for a loan. In implementing this provision, SBA limited the advances to $1,000 per employee up to a total of $10,000. Funding for the advances was depleted in July 2020. In December 2020 and March 2021, Congress provided a total of $30 billion for targeted EIDL advances and $5 billion for supplemental targeted EIDL advances available for businesses that meet specific criteria, including being located in low-income communities and meeting certain thresholds for economic loss and number of employees.[7]

EIDL Program Terms in Response to COVID-19

Small businesses eligible to borrow from the EIDL program in response to COVID-19 include small agricultural cooperatives, Employee Stock Ownership Plans, tribal concerns, sole proprietorships, independent contractors, and agricultural enterprises.[8] Eligible small businesses consist of those that have no more than 500 employees or are defined as small according to SBA size standards.[9] Most private nonprofit organizations are also eligible. Loan, advance, and targeted or supplemental targeted advance recipients can use the funds to cover expenses such as payroll, rent, utilities, and fixed debt payments, among other normal operating expenses.

[7]A low-income community is defined as a census tract where the poverty rate is at least 20 percent, or in the case of a tract not located within a metropolitan area, where the median family income does not exceed 80 percent of the statewide median family income. For census tracts in metropolitan areas, the median family income for the tract must not exceed 80 percent or greater of the statewide median family income or the metropolitan area median family income. For areas not within census tracts, equivalent county divisions will be used for the purpose of determining poverty rates and median family income. Additionally, a population census tract with population of less than 2,000 shall be treated as a low-income community if the tract is within an area of high poverty and unemployment designated under 26 U.S.C. § 1391, and is contiguous to one or more low-income communities. For a census tract within high migration rural counties to be defined as a low-income community, the median family income must not exceed 85 percent of the statewide median family income. Economic loss is defined as the amount by which the gross receipts of the covered entity declined during an 8-week period between March 2, 2020, and December 31, 2021, relative to a comparable 8-week period immediately preceding March 2, 2020, or during 2019. For seasonal businesses, SBA shall determine the economic loss as appropriate.

[8]Most agricultural enterprises were not eligible for targeted EIDL advances or supplemental targeted EIDL advances.

[9]Applicants to the targeted EIDL advances must have not more than 300 employees, and applicants for the supplemental targeted EIDL advances must have not more than 10 employees. SBA's Table of Size Standards matches industries to the North American Industry Classification System to specify the largest a business can be and still qualify as a small business. Based on SBA's size standards, qualifying as a small business can be based on the number of employees or gross receipts. However, the CARES Act made all small businesses with 500 or fewer employees eligible for EIDL.

For EIDL loans, recipients have a repayment period of up to 30 years, and SBA deferred repayment for all EIDL loans until 2022.[10] For EIDL loans in response to COVID-19, SBA set the interest rate at 3.75 percent for businesses and 2.75 percent for nonprofits. Interest accrues on the outstanding balance of the loan during deferment.

The loan amount SBA offers to the EIDL applicant depends on the amount of the applicant's economic injury, as well as on loan limits that SBA put in place.[11] Economic injury is the change in the applicant's financial condition attributable to the effect of a disaster, resulting in the inability of the applicant to meet its obligations or to pay ordinary and necessary operating expenses. SBA calculated the economic injury using gross revenue and cost of goods sold between January 31, 2019, and January 31, 2020, two pieces of information requested on the EIDL application. SBA initially calculated economic injury related to COVID-19 by presuming 6 months of lost gross profit. For example, a business with $120,000 in annual revenue and $60,000 in cost of goods sold has $60,000 in annual gross profit, or $5,000 per month.[12] The economic injury for this business would be $5,000 multiplied by six, or $30,000.

From March 16, 2020 through May 3, 2020, SBA limited the maximum loan amount to $500,000, even if the calculated economic injury exceeded that amount. From May 4, 2020, through April 5, 2021, SBA limited the maximum loan amount to $150,000. SBA previously told us that this decision was made in order to provide more loans to small businesses.[13] Beginning on April 6, 2021, SBA increased the loan limit back to $500,000, revised its economic injury calculation to presume 24

[10]For loans made in calendar year 2020, the first payment due date was extended from 12 months to 24 months from the date the loan was executed. For loans made in 2021, the first payment due date was extended from 12 months to 18 months from the date the loan was executed.

[11]The statutory maximum for an EIDL loan is $2 million, but SBA can set a lower maximum amount.

[12]In February 2021, SBA defined the cost of goods sold as the direct costs of producing the goods sold by a company, including the cost of materials and labor directly used to create the goods. It excludes indirect expenses, such as sales force and distribution costs. SBA used different information to determine economic injury for agricultural enterprises and nonprofits. SBA asked these applicants to provide operating expenses for the 12 months prior to the disaster. To calculate 6 months of economic injury, SBA divided the 12-month operating expenses by two.

[13]See GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts,* GAO-20-625 (Washington, D.C.: June 25, 2020).

months of lost gross profit, and began to accept requests for loan increases. Using the same example of a business with a gross profit of $5,000 per month, the calculated economic injury under the revised economic injury calculation would be $120,000 ($5,000 multiplied by 24) rather than $30,000. After SBA makes a loan offer, the applicant can select an amount that is lower than the offered amount.[14]

SBA's Office of Disaster Assistance

SBA's Office of Disaster Assistance is responsible for administering the EIDL program in response to COVID-19, primarily through the following offices:

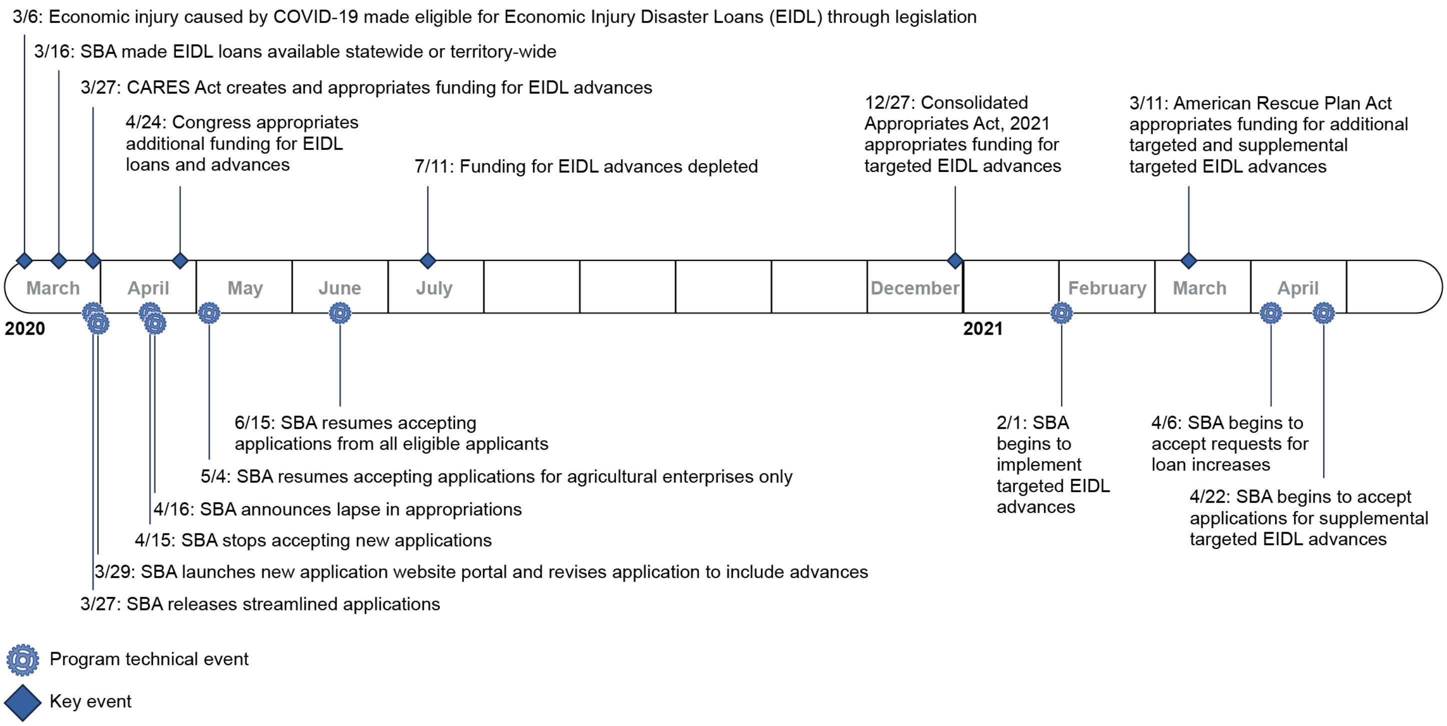
- **The Office of Disaster Assistance Headquarters** creates policies, procedures, and guidelines for all office operations and coordinates with Congress.
- **The Customer Service Center** is a single nationwide point of contact for SBA disaster loans. It provides a call center, email response, and disaster application mailings.
- **Field Operations Centers** coordinate disaster field operations and publicize the Office of Disaster Assistance's disaster lending programs before and after disasters.
- **The Processing and Disbursement Center** screens all applications, reviews and processes those that are complete for approval or declination, closes all approved loans, and disburses loan proceeds.

SBA's Implementation of the EIDL Program in Response to COVID-19

To implement the EIDL program in response to COVID-19, SBA took several key steps, including declaring businesses in specific areas eligible, implementing a new system for processing applications, and creating a new application website (see fig. 1). At times, SBA temporarily stopped receiving and processing applications because of program changes, legislative changes, and exhaustion of funding.

[14]SBA stated that if a borrower accepts a loan for less than the full amount offered, the borrower would have up to 2 years after the date of the loan was executed to request additional funds.

Figure 1: Timeline of the Economic Injury Disaster Loan Program in Response to COVID-19



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

SBA declared disaster areas eligible for the EIDL program. After Congress deemed COVID-19 a disaster, SBA began to declare states and territories eligible for EIDL loans beginning on March 16, 2020.[15] The declarations allowed SBA to begin using about $1.1 billion of its existing disaster loan credit subsidy to make EIDL loans. By March 21, 2020, SBA had declared all states, U.S. territories, and the District of Columbia to be disaster areas eligible for EIDL funding.

SBA implemented a new system for processing COVID-19 EIDL applications. SBA had an existing disaster loan processing system in

[15]SBA changed its requirement that a state or territory provide documentation certifying that at least five small businesses have suffered substantial economic injury as a result of the disaster, with at least one business located in each declared county or parish. Under a new criterion, states and territories are required to certify that at least five small businesses within the state or territory have suffered economic injury, regardless of where businesses are located.

place at the start of the pandemic. However, that system did not have the capacity to handle the number of EIDL applications SBA received in response to COVID-19. SBA turned to an existing contractor, RER Solutions, for a system to provide automated initial recommendations to approve or decline EIDL applications and flag applications with issues for further review by SBA.[16] RER Solutions had an existing subcontractor—Rocket Loans—that supported SBA's existing systems used to provide disaster loans to individuals for home and personal property repairs. To process EIDL loans, Rocket Loans added a second-tier contractor—Rapid Finance—to use Rapid Finance's underwriting system to perform data validation and conduct automated checks for potential fraud and eligibility as part of the application review process.[17] We describe these checks further below.

SBA created new EIDL application forms and a new loan application website. In late March 2020, SBA released a streamlined loan application. The streamlined application did not require applicants to provide documents previously required for EIDL loan applications, including profit and loss statements and a copy of the most recent federal income tax return. Working with Rapid Finance, SBA also implemented a new application website that included an option for loan applicants to apply for advances.

EIDL temporarily stopped accepting applications as a result of exhaustion of funding and legislative changes. On April 15, 2020, SBA stopped accepting new applications and announced the following day that the $10 billion in funding for advances and the $1.1 billion in disaster loan credit subsidy had been exhausted. After the passage of the Paycheck Protection Program and Health Care Enhancement Act on April 24, 2020, SBA resumed accepting applications on May 4, 2020, but only from agricultural enterprises. SBA resumed accepting applications from all eligible applicants on June 15, 2020. On July 11, 2020, SBA announced that funding for EIDL advances had been exhausted and subsequently removed the option to request EIDL advances from the application website.

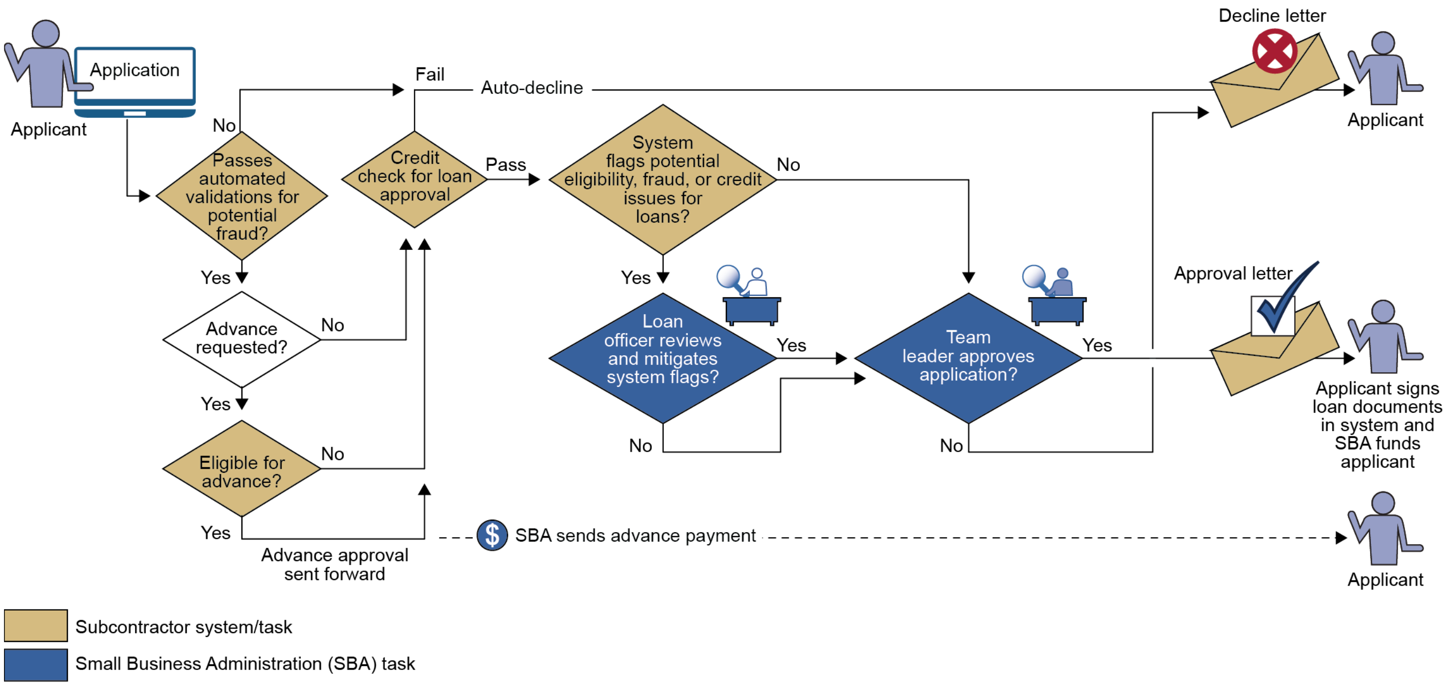
[16]SBA modified the original contract from $100 million to $600 million on April 17, 2020, and again to $750 million on August 12, 2020. SBA also extended the term of the contract as part of the modification.

[17]RER Solutions told us that the company receives 51 percent of the contract's funding while the subcontractors combined receive 49 percent.

EIDL Loan and Advance Processing Steps

SBA processed EIDL loans and advances differently (see fig. 2). Applicants that applied to the EIDL program before July 2020 (prior to the depletion of funding for advances) could apply for advances and loans on the same application. SBA approved and declined advances solely based on automated validation of certain applicant information. To approve and decline loans, SBA combined automated validation and further manual review by SBA staff.

Figure 2: SBA Processing of Economic Injury Disaster Loans and Advances



Source: GAO review of SBA documents. | GAO-21-589

Note: This figure does not depict processing of targeted or supplemental advances.

Rapid Finance's underwriting system accesses various third-party databases and public domain information to identify certain indicators of potential fraud and to validate bank account information. Examples of potential fraud indicators the system identifies include suspicious online behavior, high-risk internet protocol addresses, bank account ownership that does not match the business, and owner information that cannot be validated. Additionally, the system compares application responses to SBA's eligibility criteria, such as type of business activity and the date on which the business was established.[18] SBA automatically approved or declined applicants for advances that passed fraud and eligibility validations without further action.[19] To determine eligibility for loans, the system also pulls credit reports to validate whether the applicant meets the minimum credit score, has an open bankruptcy, or has delinquent child support. The validation system does not automatically approve loan applications but does automatically decline loan applications that do not meet the minimum credit score. The system records fraud alerts and other alerts identified through the validation process for further review by SBA staff.

SBA loan officers at the Processing and Disbursement Center are to review fraud and other alerts recorded by the automated validation system and approve or decline the application based on whether they can mitigate the alerts through research or obtain information from applicants. Supervisory officials—team leaders—review the loan officers' decisions and make the final decision. In cases where the system does not identify any alerts and therefore does not require the loan officers to mitigate them, the team leaders are to review the application and approve the loan.

Applicants that pass the automated validation process for loans receive invitations to create an account for an online loan portal, where the applicant can select the desired loan amount up to the amount of the calculated economic injury or the maximum loan limit. Applicants that were automatically declined do not have access to this online loan portal. Declined loan applicants may request that SBA reconsider their applications. Additionally, approved applicants may also file a reconsideration request for SBA to increase the loan amount up to the loan limit set by SBA.[20]

[18]Certain business activities are ineligible for EIDL loans and advances. These include, for example, applicants engaged in illegal activities, political or lobbying activities, and production of products or services determined to be obscene. Additionally, businesses must have been established on or before January 31, 2020.

[19]This process differs for targeted and supplemental advances, which we discuss later in the report. Additionally, we provide more information on fraud and eligibility checks later in the report.

[20]Approved applicants that selected a loan amount less than the amount SBA offered may appeal for increases. Additionally, approved applicants that believe their economic injury should be higher may also appeal for increases.

SBA Took Steps to Address Processing Challenges but Lacks a Comprehensive Communications Strategy

High Volume of Applications Led to Longer Processing Times Early On, but SBA Took Steps to Address Them

A key challenge to implementing the EIDL program in response to COVID-19 was the historically high volume of applications SBA received, according to agency officials. Between March 15, 2020, and February 27, 2021, SBA accepted about 17.9 million EIDL applications and processed 17.7 million of them. Of the processed applications, SBA approved about 3.8 million loan applications totaling about $203.5 billion, declined about 6 million applications, withdrew about 2.6 million applications, and found 5.3 million applications to be duplicates.[21] Additionally, between March 29, 2020, and July 15, 2020, SBA approved about 5.8 million EIDL advances for about $20 billion and declined about 2.5 million requests for advances. For comparison, from SBA's inception in 1953 until its COVID-19 response in March 2020, SBA approved a total of about 2.2 million disaster loans for $67 billion, according to one SBA official.

Our review of SBA's weekly summary processing reports showed that SBA missed its goal of approving or declining 85 percent of the COVID-19 loan applications within 60 days.[22] As of February 27, 2021, SBA processed about 63 percent of the approved applications within 60 days and about 90 percent of the declined applications within 60 days. The cumulative average processing times were longer for approved loans (47 days) than for declined loans (22 days). The shorter processing time for declined loans may be the result of automatic declines, such as when an applicant does not meet the minimum credit score.

[21]SBA officials told us the agency withdraws applications because of applicant nonresponse (after 120 days without a response) or applicant requests to withdraw.

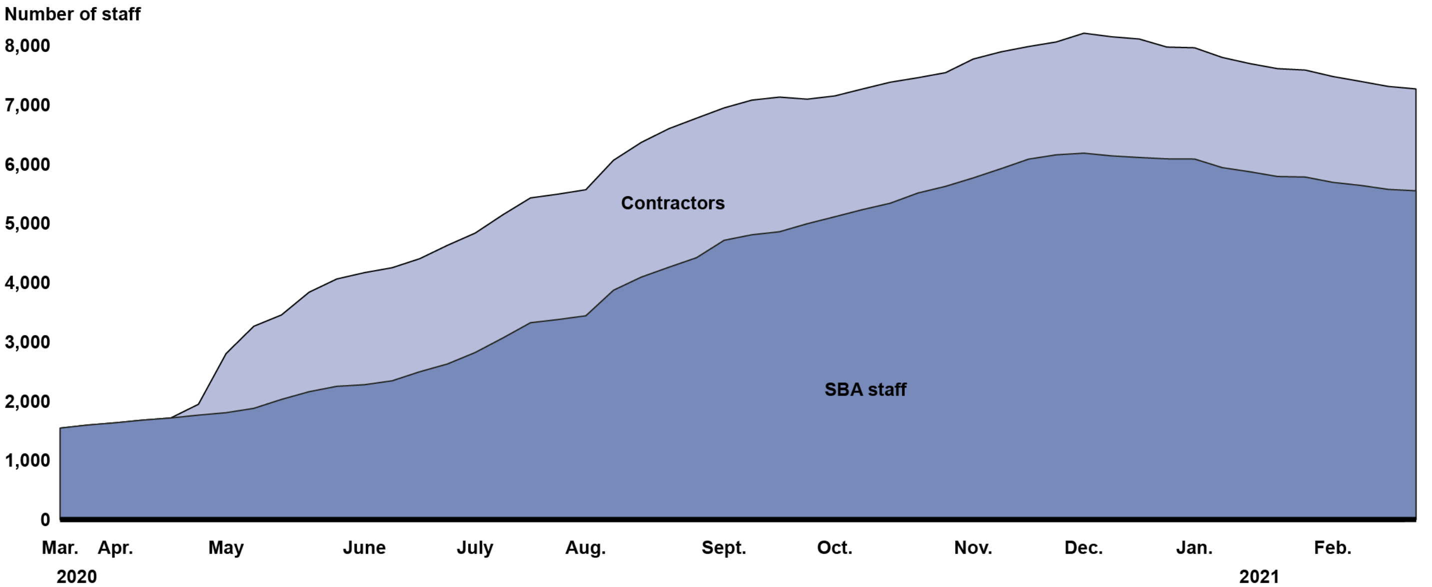
[22]SBA has four response levels that correlate staffing levels with the anticipated number of applications and processing goals. The pandemic triggered a level IV response, which indicates that SBA anticipates more than 500,000 applications and has a processing goal of more than 4 weeks.

The average processing time for advances was shorter than that for loans, and SBA did not establish a processing goal for the advances. SBA's summary processing reports showed that the cumulative average processing time for all advance applications was about 18 days, with an additional average disbursement time of 7 days for all approved advances. SBA processed advances using only automated validation, resulting in shorter processing times.

To process the large volume of applications, SBA worked with Rapid Finance to modify its existing validation system and increased processing staff:

- **Modifying an existing automated validation system to help process EIDL applications.** SBA asked Rapid Finance to modify its existing software and hardware to incorporate SBA's requirements related to fraud checks and eligibility criteria, rather than building a new validation system specifically for SBA. An SBA official stated that the agency began processing EIDL applications using this new system on April 7, 2020. Prior to implementing the new system, SBA officials told us loan officers manually reviewed all applications. SBA officials stated that the daily number of applications processed was 616 prior to the use of the validation system and 45,050 after the use of the system.
- **Increasing staff and establishing processing time goals**. SBA data for March 20, 2020, to February 12, 2021, show that staffing for the Processing and Disbursement Center increased five-fold from late March 2020 to its peak in December 2020 (see fig. 3). SBA officials told us the center initially drew detailees from other SBA offices and other federal agencies to help provide support. Additionally, SBA used contractors to quickly ramp up staffing starting from the end of April 2020. SBA officials said the use of detailees and contractors allowed SBA time to recruit and hire new employees. In April 2020, SBA projected it would need about 6,900 staff at the center to handle 5 million EIDL applications. The center reached this level of staffing in September 2020. SBA officials stated that fully staffing the center helped SBA address the increased volume of work. Loan officers were expected to approve or decline at least four loan applications per hour, and team leaders were expected to review and confirm loan officers' decisions on 10 to 12 loan applications per hour.

Figure 3: Weekly SBA Processing and Disbursement Center Staffing Levels, March 20, 2020–February 26, 2021



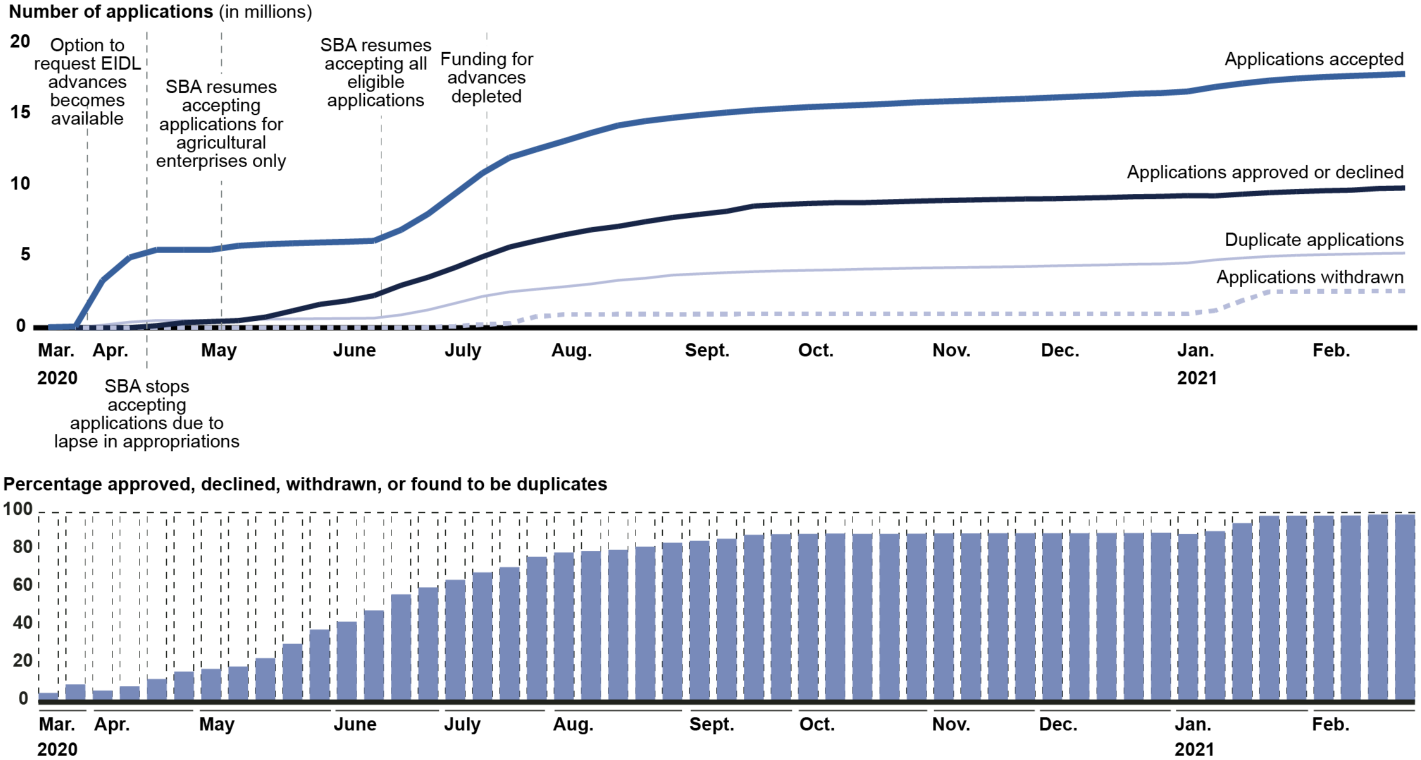
Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

SBA's data show that backlogs in processing loan applications and application processing times declined between March 2020 and February 2021.

- **Application backlog.** SBA's summary processing report data for loan applications show that initial surges of applications resulted in a processing backlog (see fig. 4). By mid-April 2020, when SBA stopped accepting new applications due to exhaustion of funds, SBA had received about 5.5 million applications and processed about 12 percent of them.[23] The number of new applications then declined because SBA limited the program to agricultural enterprises, but it increased again when SBA reopened the program to all eligible businesses in mid-June 2020. By July 11, 2020, when SBA announced that the funding for advances had been exhausted, SBA had received about 10.9 million applications and processed 68 percent of them. SBA's data show that the number of new loan applications decreased starting in mid-July. Subsequently, SBA reduced its backlog of loan applications.

[23]This total includes all applications SBA received, which may have been approved, declined, withdrawn, or found to be duplicates.

Figure 4: Economic Injury Disaster Loans (EIDL) Cumulative Application Volume and Percentage of Applications Processed, March 15, 2020–February 27, 2021



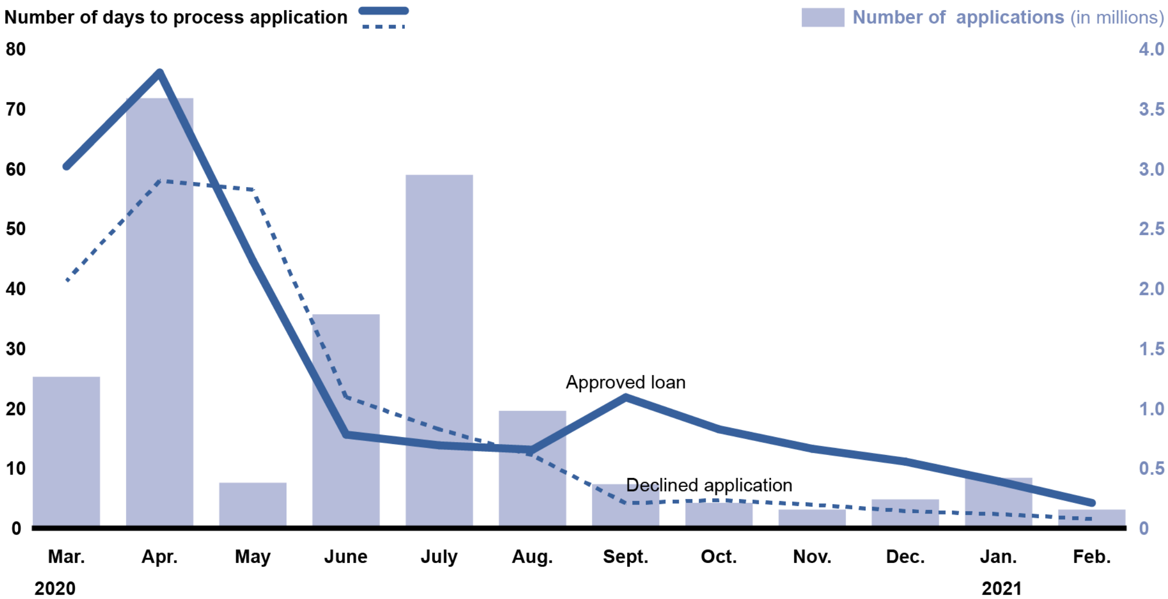
Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: The figure reflects the status of the applications at the time SBA generated the data. Processing status may change over time. For example, SBA could reactivate a withdrawn application and approve or decline the application later.

- **Application processing times.** Our analysis of SBA's applicant data from March 2020 through February 2021 showed that applicants who applied early experienced the longest processing times, up to 76 days on average for approved applicants and 58 days on average for declined applicants.[24] In particular, applicants who applied in March and April 2020 experienced longer processing times compared to later applicants (see fig. 5).

[24]We analyzed the processing times for applications that SBA funded after approval; see app. I for more information.

Figure 5: Number of Economic Injury Disaster Loan Applications and Average Processing Times, by Month Application Accepted, March 2020–February 2021



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: Data for number of days to process applications for approved loans include only applications that SBA funded after approval. Number of applications includes applications that were funded or were waiting to be funded after approval, or were declined, under processing, or withdrawn.

Some Applicants Experienced Long Wait Times on SBA's Customer Service Line as Call Volumes Exceeded SBA's Expectations

Some applicants experienced long wait times when calling SBA's customer service line, according to SBA's data for its Customer Service Center from March 21, 2020, through February 20, 2021. For example, the daily maximum time that callers were placed on hold between March 2020 and July 2020 reached a high of 4 hours and 10 minutes.[25] Participants from three of five discussion groups we held, as well as a

[25]We obtained this information from the SBA Office of Inspector General's report published in October 2020. See Small Business Administration, Office of Inspector General, *Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic* (Washington, D.C.: Oct. 28, 2020). SBA officials told us that the agency does not currently keep track of maximum call times.

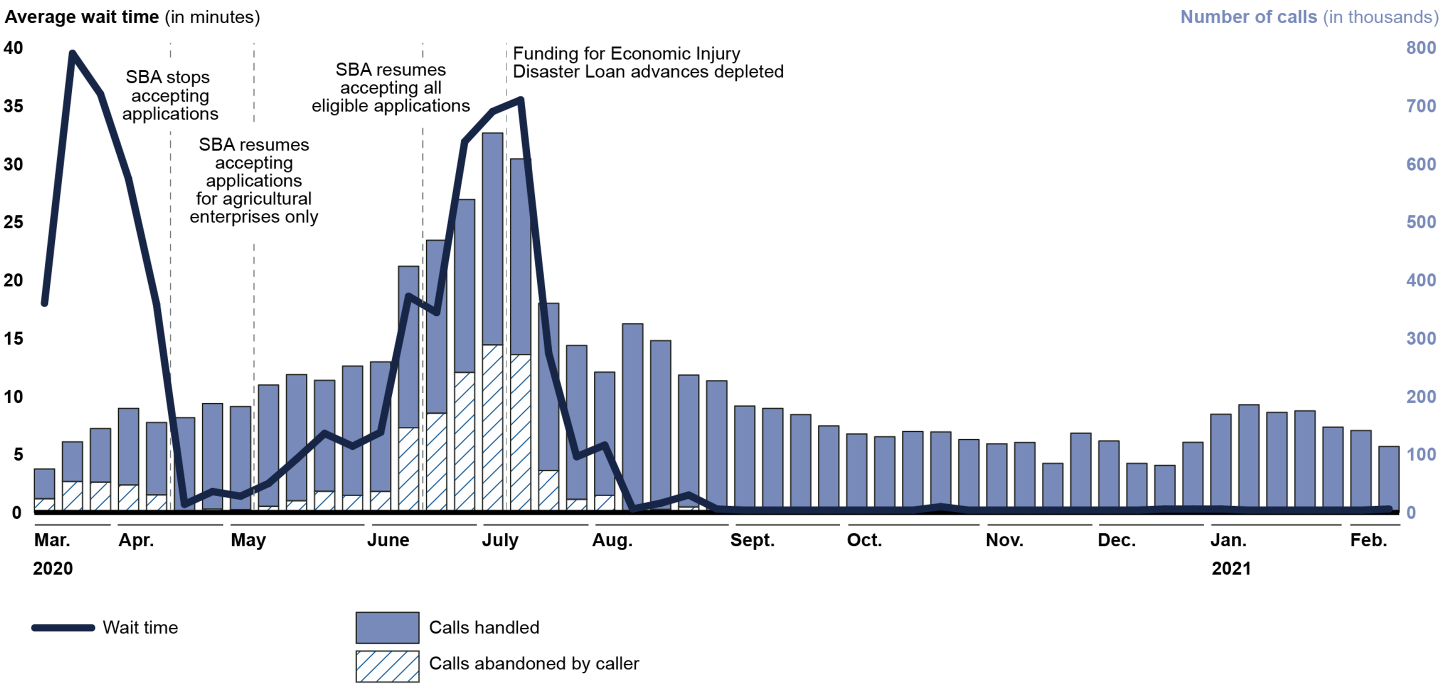
majority of the stakeholders, told us that applicants experienced long wait times to speak to an SBA customer service representative.[26]

SBA received about 10.8 million calls between March 2020 and February 2021. As shown in figure 6, the weekly average wait time ranged from 11 seconds to 39.5 minutes, with an overall average wait time of 7 minutes. Additionally, SBA's data show that abandoned calls made up about 15 percent of all calls. About 69 percent of the abandoned calls occurred between the weeks of June 14, 2020, and July 12, 2020, when SBA received the highest volume of calls. This timing coincided with SBA reopening the EIDL program to all eligible applicants on June 15, 2020, and SBA announcing that funding for EIDL advances was depleted on July 11, 2020. SBA officials told us that a majority of customer service calls SBA received were applicants checking on their application status.[27] However, SBA officials also said that as application processing time decreased, the number of such calls declined. SBA officials told us that due to the high volume of calls related to the pandemic, the Customer Service Center did not project call volumes for fiscal year 2020.

[26]We conducted five discussion groups with a total of 22 EIDL program applicants. Two of these groups consisted of applicants declined for loans, and three groups consisted of applicants that were approved. Each group consisted of four to six participants. The opinions expressed by the participants represent their points of view and may not represent the views of all EIDL applicants. We refer to the six SBDCs and seven associations we spoke with collectively as stakeholders. We use the terms "few," "several," "a majority," and "almost all" to characterize stakeholder responses. We define "few" as 1–3 responses, "several" as 4–6 responses, "a majority" as 7–10 responses, and "almost all" as 11–13 responses.

[27]SBA's customer service representatives may be able to provide information about applications depending on the stage of the application.

Figure 6: SBA Customer Service Line Average Wait Times and Call Volumes, Week of March 15, 2020, through Week of February 14, 2021

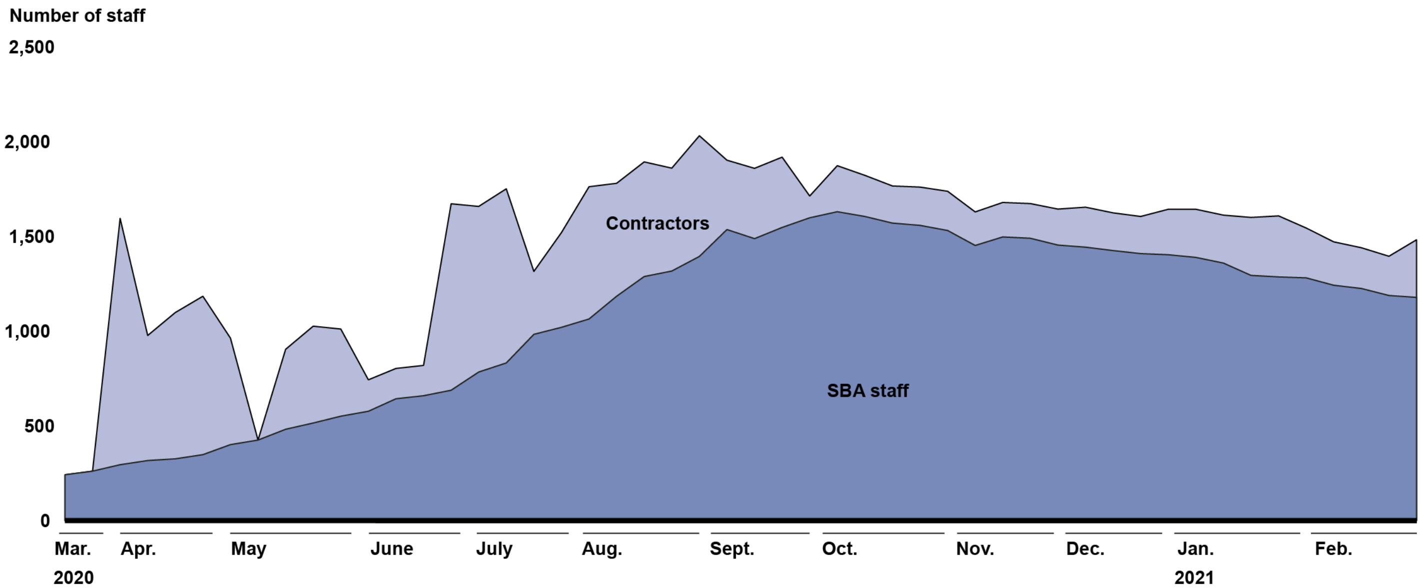


Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: The customer service calls were primarily, but not exclusively, related to COVID-19.

SBA's data show that the volume of calls exceeded the capacity of the Customer Service Center in late March 2020 and in mid-June 2020 (when the program reopened to all eligible applicants) (see fig. 7). In April 2020, SBA projected that its Customer Service Center would need about 1,650 staff. SBA reached this level of staffing in late June 2020. However, SBA officials told us that SBA adjusted staffing at the center based on actual incoming calls. SBA first used contractors to provide support and then increased its own staff, primarily through new hiring. SBA maintained a higher level of customer service staffing after June 2020, and the volume of calls declined beginning in late July 2020. As a result, average wait times and the percentage of abandoned calls also subsequently declined.

Figure 7: SBA Customer Service Center Staffing Levels, March 20, 2020–February 26, 2021



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

SBA's Communication about Program Terms and Applicants' Status Created Confusion and Uncertainty, and SBA Lacks a Comprehensive Communications Strategy

As SBA began to implement the EIDL program in response to COVID-19, its initial communications with potential applicants and other stakeholders excluded key information about program terms, creating confusion among applicants. SBA also did not communicate information about application status to applicants in a timely manner. SBA's current disaster-related plans do not provide a comprehensive strategy for addressing these communication issues.

SBA's Initial Communication Excluded Key Information

SBA communicated EIDL program information, such as eligibility criteria and how to apply, to potential applicants using various channels. However, SBA's outreach and published information during the initial months of its COVID-19 response did not provide certain key information about the program effectively or in a timely manner.

SBA distributes information about the EIDL program through media, its website, and other channels. For SBA's COVID-19 response, the agency's Field Operations Centers disbursed information about the program by hosting webinars, coordinating with media contacts, and interacting with trade associations, chambers of commerce, and resource partners (such as SBDCs). SBA officials also created a frequently asked questions (FAQ) document for SBA's website to provide details about the EIDL program in response to COVID-19, including eligibility criteria, steps in the application process, and reasons for declining an application. However, SBA officials said SBA did not publish the FAQ until September 2020 because of delays in reviewing the document internally. Prior to the publication of the September 2020 FAQ, SBA's website information was limited to the purpose of the program, eligible entities, and loan terms.

SBA communicated changes to advance and loan limits through some channels but not others, sometimes several months after these changes occurred:

- **Advance limits.** SBA revised the limits on advances to $1,000 per employee and a maximum of $10,000 per applicant on April 7, 2020, and informed EIDL applicants that had applied about the revised limit by email on April 13, 2020. SBA also provided the revised advance limits during webinars. However, SBA did not communicate this information on its website or within the EIDL application. SBA included the limits on advances in a press releases issued on June 15, 2020, but as of early July 2020—almost 3 months after SBA revised the advance limits—SBA's website still did not include this information.[28]
- **Loan limits.** SBA lowered the maximum EIDL loan amount to $150,000 beginning on May 4, 2020. However, SBA did not provide this information on its website, in its press releases, or within the EIDL application. The first time SBA broadly announced the $150,000 loan maximum was in February 2021 when it updated its FAQ document. Prior versions of the FAQ stated that the maximum loan amount was 6 months of working capital and did not specify a maximum amount.

Almost all stakeholders we interviewed said that SBA did not make information about limits it imposed on advances and loans available to applicants in a timely manner. Several stakeholders said this caused confusion and frustration for small businesses. For example, a representative from one business association said that some small business owners did not understand why they received less than they

[28]In the June 15, 2020, press release, SBA announced that it would resume accepting applications from all eligible applicants and included information about the limit on advances. SBA announced on July 11, 2020, that funding for the advances had been exhausted.

expected, and a representative from an SBDC said some applicants viewed the program as false advertising.

SBA also did not provide other key information to help applicants estimate their potential loan amount. Specifically, the EIDL application form requests that applicants provide the dollar amounts for 12 months of gross revenues and cost of goods sold. These amounts are part of the calculation SBA uses to determine an applicant's economic injury and ultimately the loan amount SBA could offer the applicant. However, as of April 2021, SBA had not clarified in its application, on its website, or in its most recent FAQ how it uses gross revenues and cost of goods sold to calculate the loan amount that it could offer.

Discussion group participants and stakeholders we spoke with provided mixed views about the clarity of information presented on the EIDL application. Participants from each of the five discussion groups said that the application was clear and straightforward. However, a few participants from three of the five discussion groups and a majority of the stakeholders said some applicants did not understand certain financial terms on the application, such as the cost of goods sold. These stakeholders told us this resulted in some applicants providing incorrect information on their applications and deterred others from applying. Providing incorrect information may result in declined applications or inaccurate estimates of applicants' economic injury.

In February 2021, 11 months after the CARES Act revised the EIDL program in response to COVID-19, SBA defined "cost of goods sold" in its updated FAQ and provided a link to an Internal Revenue Service website for further information.[29] However, the link takes the applicant to a webpage with over 30 links on a variety of topics, none of which are labeled "cost of goods sold."[30]

Stakeholders Cited a Lack of Information about Application Status and Processing Times

After submitting their applications, EIDL applicants did not receive clear information from SBA about their application status—whether by email, from SBA's online loan portal, or from its Customer Service Center. Applicants generally apply online on SBA's website. As discussed earlier, if the application successfully passes the validation process, SBA sends applicants an email inviting them to access the loan portal. In the loan

[29]https://www.irs.gov/businesses/small-businesses-self-employed.

[30]One of these links leads the applicant to another webpage that has a link labeled "cost of goods sold."

portal, applicants can view their application status for the first time (for example, their screen would display a status such as “application is being processed”). Alternatively, applicants who fail the validation process would receive an email informing them that SBA has declined their application. This email either declining the application or inviting the applicant to access the loan portal is generally the first communication applicants receive from SBA about the status of their application.

Applicants may call SBA’s Customer Service Center to check the status of their application, but the information the center’s representatives can provide may be limited and may depend on the stage of application review. Prior to an application undergoing the automated validation process, customer service representatives would not be able to access system information about the application. After an application has completed the validation process, customer service representatives can inform an applicant if SBA has approved or declined the application, if the applicant has to take additional steps to move the application forward, or if the application is under review. For applications under review, SBA’s training guide directs customer service representatives not to provide more detailed information on application status. SBA officials told us this was because the agency could not share certain information with the applicant. Participants from three discussion groups said that customer service representatives could not provide more than general information about the status of their applications.

Participants from all five discussion groups and several stakeholders we spoke with cited lack of information and uncertainty about application status as major concerns for applicants. Participants from all five discussion groups told us they wanted to know if they had submitted their application successfully and about the progress of their application throughout the entire application process. A few stakeholders said status information would have helped applicants make business decisions that were contingent on the EIDL application outcome, such as whether to apply for other funding. One discussion group participant explained that knowing in advance when she could expect to receive funds would have helped her decide if she should identify other funding sources to pay for her inventory. Participants from one discussion group also told us that they reapplied to the program because SBA did not confirm the receipt of their applications or did not provide clear directions when it made application processing changes. SBA data show that 5.3 million of the

17.9 million EIDL applications SBA accepted from March 15, 2020, to February 27, 2021, were duplicates.[31]

SBA officials acknowledged that not knowing their application status alarmed applicants, particularly early in the pandemic when applicants had to wait several weeks. Additionally, they said that because SBA quickly built the EIDL application website specific to the COVID-19 response, the website did not incorporate the functionality to provide applicants with confirmation emails and status updates.

SBA tracks high-level information that could provide approximate processing times for various stages of the application process, but it has not made this information publicly available to applicants, such as through its website. SBA also collects detailed data on loan applications, including the number of applications submitted, approved, and declined, and develops weekly statistics such as the average number of days to approve and decline applications. Similarly, SBA develops processing time statistics for other EIDL-related funding and actions, including for reconsiderations of declined applications and requests for loan increases.

SBA Has Communication Plans but Lacks a Comprehensive Communications Strategy

The nature and scale of the COVID-19 pandemic have presented unprecedented challenges for SBA's operations, including its communications. Unlike prior disasters, which were regional and episodic, the pandemic is nationwide and SBA has operated in disaster recovery mode for over a year—longer than it has for past disasters. As SBA continues to implement the EIDL program in response to COVID-19, clear and timely communication with applicants remains important.

SBA has taken some steps to improve its communication efforts. For example, in contrast to SBA's implementation of the EIDL loans in response to COVID-19, its implementation of targeted advances included a FAQ document detailing eligibility requirements, targeted advance program criteria, and the eligible amount. Additionally, SBA publicized its decision to increase the maximum loan limit to $500,000 through a press release on March 24, 2021, and announced the effective date. However, SBA has not yet provided information on processing times related to EIDL loans. For example, while SBA has begun processing appeals for loan

[31] Some duplicates may have occurred because of early changes in the program. SBA updated its website to include an option to request advances on March 29, 2020. SBA informed applicants that applied for a COVID-19 EIDL loan prior to March 30, 2020, that they had to reapply in order to obtain the advances. SBA's data showed that as of March 28, 2020, SBA had received about 93,500 applications.

increases to the limit of $500,000, it has not yet provided information on processing times for such appeals.

Federal internal control standards state that management should externally communicate the necessary quality information to achieve the entity's objectives. Management is to select appropriate methods to communicate externally and, in doing so, to consider the intended audience, the availability of information for the audience when needed, and the costs of communicating the information, including the resources used to communicate.[32] Additionally, the Paperwork Reduction Act has a broad requirement that an agency disseminate information in a manner that is efficient, effective, and economical.[33]

SBA has two plans to guide its predisaster preparation and post-disaster response efforts, including communications:

- **Disaster Preparedness and Recovery Plan.** SBA's 2019 Disaster Preparedness and Recovery Plan identifies roles and responsibilities for functional areas, such as public communications, as part of the disaster assistance response. The plan outlines how SBA is to publicly communicate with its target audiences—such as disaster survivors, government officials, media outlets, and resource partners—about the agency's recovery operations and services. The plan also broadly outlines the type of information to provide disaster survivors, such as how to contact SBA and its offices to obtain assistance in applying for disaster loans.
- **Outreach and Marketing Plan.** SBA's Office of Disaster Assistance maintains an Outreach and Marketing Plan for State, Local, and Tribal Leadership and Emergency Personnel, which provides broad guidance for raising stakeholder awareness about SBA's disaster assistance programs. These stakeholders consist of federal, state, local and tribal entities; resource partners; and media contacts.

[32]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

[33]The Paperwork Reduction Act of 1995 requires agencies to minimize the paperwork burden on individuals and small businesses and maximize the utility of information collected by agencies. Pub. L. No. 104-13, 109 Stat. 163 (codified, as amended, at 44 U.S.C. §§ 3501-3521).

However, these plans do not identify the type of information that applicants would need in order to understand and participate in disaster loan programs, guidelines on what information to provide to potential applicants and when to provide it, and considerations for how applicants could access the information in a manner that is efficient, effective, and economical. The lack of existing guidelines may have amplified the communications challenges applicants faced when combined with the magnitude and longevity of the pandemic response.

The scope of the COVID-19 pandemic may have exceeded the bounds of what SBA has previously experienced, but by developing a more comprehensive strategy for communicating with disaster relief program participants, SBA would be better prepared in the future to respond to longer-term, large-scale disasters. Such a strategy could help ensure SBA more consistently communicates with program participants in a clear, timely manner, facilitating program implementation. In turn, this could also reduce demand on SBA's resources—for example, by providing timely information on application status, SBA could reduce the number of applicants who contact the Customer Service Center or reapply.

Program Participants Generally Found the EIDL Program Helpful

Loan Limits Affected More Borrowers after SBA Decreased the Limit in May 2020

As previously discussed, SBA decreased the loan limit from $500,000 to $150,000 in May 2020 in order to assist more small businesses, which increased the number of EIDL borrowers with unmet financial needs. For the initial $500,000 loan limit SBA had in place from March 16, 2020, through May 3, 2020, SBA data show that the agency approved about 7,000 EIDL loans in the amount of $500,000 for applicants with an economic injury greater than $500,000, which indicates that these borrowers may have had some degree of unmet need. As of April 1, 2021, SBA had approved 567,553 EIDL loans in the amount of $150,000 for applicants with an economic injury greater than $150,000, which represents about 15 percent of all applicants approved between March 15, 2020, and April 3, 2021. As mentioned previously, SBA began to accept requests for loan increases on April 6, 2021.

Participants from our three discussion groups consisting of approved loan applicants and stakeholders we interviewed expressed mixed views on the effect of the loan limit. For example, discussion group participants said that they accepted a smaller loan amount than SBA offered to cover expenses for a short duration, which indicates that the limit did not affect the program's ability to meet their short-term needs. However, several stakeholders said that loan amount was insufficient for some businesses, particularly larger businesses and especially as the pandemic continued beyond 6 months.

Stakeholders Said EIDL Loan Terms Are Attractive and the Loans Have Been Helpful to Businesses

Discussion groups and stakeholders identified various reasons for applicants' interest in EIDL loans and advances:

- **Program provides needed funds for operating expenses.** Businesses were interested in using the EIDL program for continued operating expenses, such as rent and utilities, and new operating expenses, such as personal protective gear and technology to facilitate online operations, according to a majority of the stakeholders and participants from four discussion groups.
- **Program terms are attractive.** Loan terms—including the low interest rate, long repayment period, and flexibility in how businesses could use EIDL loans—made the program attractive, according to participants from three discussion groups and a majority of the stakeholders.
- **Credit with similar terms not available elsewhere.** The lack of available lending or difficulty in obtaining credit elsewhere, such as from a bank, led some applicants to apply to EIDL, according to participants from two discussion groups and several stakeholders. For example, a few stakeholders noted businesses faced restrictive underwriting criteria because of the uncertainties of the pandemic.

Participants in three discussion groups consisting of approved EIDL applicants and a majority of the stakeholders told us that the EIDL program has been beneficial for small businesses (other stakeholders did not comment on the impact of the program). Discussion group participants provided examples of how they used loans, such as paying business partners for goods and maintaining relationships with business partners, pivoting their business models (such as toward online sales), and helping the business to cover expenditures. Representatives from all six SBDCs said EIDL loans helped to keep businesses open, in part by providing them with funding to pay for operating and other expenses.

Participants from our two discussion groups of EIDL applicants whose loans were declined provided examples of how the declination negatively affected their business and personal finances. For example, they accrued debt with interest rates higher than EIDL or used retirement or other savings to keep their businesses open, laid off personnel, or cut back on certain spending. However, they also said that funding obtained elsewhere—such as forgivable loans from the Paycheck Protection Program—mitigated the negative impact.[34]

Finally, several stakeholders noted that some businesses may not be interested in new loans because of their unwillingness to incur debt and the longer-term uncertainty associated with the pandemic. One declined loan applicant told us that she was only interested in the advances and did not want to take on a large loan.

SBA Has Begun to Address Eligibility and Fraud Concerns but Has Not Fully Implemented GAO Recommendations

EIDL Program Is at High Risk of Funding Fraudulent and Ineligible Applicants

We and others have identified potentially fraudulent and ineligible applicants within the EIDL program. Additionally, fraud schemes identified by law enforcement officials and our analysis of EIDL fraud-related court cases charged by the Department of Justice (DOJ) point to significant risk of fraud in the program.

As we reported in January 2021, SBA had provided about 5,000 advances totaling about $26 million to potentially ineligible businesses in three types of industries—adult entertainment, casino gambling, and marijuana retail—as of July 14, 2020.[35] In addition, SBA had approved at least 3,000 loans totaling about $156 million to businesses that SBA policies state were ineligible for the EIDL program, such as real estate developers and multilevel marketers, as of September 30, 2020. In

[34]Loans from the Paycheck Protection Program, another SBA program, may be fully forgiven if they meet certain conditions, including that at least 60 percent of the loan forgiveness amount be for payroll costs.

[35]See GAO, *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021).

October 2020, SBA's Office of Inspector General (OIG) reported that it found strong indicators of fraud, such as loans going to potentially fraudulent accounts; loans to applicants with the same internet protocol address, email address, bank account, or mailing address; and loans to potentially ineligible businesses. In December 2020, SBA's independent financial statement auditor noted discrepancies including more than one loan or advance approved and disbursed to the same borrower. The auditor also identified over 6,000 disbursed EIDL loans (over $212 million total) issued to potentially ineligible borrowers.

Our review of aggregate data from the Financial Crimes Enforcement Network (FinCEN) also indicated potential fraud in the EIDL program. Our January 2021 report found that between May and October 2020, over 900 U.S. financial institutions filed more than 20,000 suspicious activity reports related to the EIDL program with FinCEN.[36] These reports identified multiple types of potentially suspicious activity related to EIDL, such as indicators of identity theft, the rapid movement of funds, and forgeries.

In addition, law enforcement officials have reported systemic patterns of fraud across investigations involving EIDL loans. We reported in March 2021 that officials at SBA OIG and the Federal Bureau of Investigation told us they had identified systemic patterns of potential fraud including identity theft, false attestations on loan documents, fictitious and inflated employee counts, and misuse of proceeds.[37] Additionally, a senior official with SBA OIG told us that, as of January 2021, SBA OIG had opened over 260 investigations related to CARES Act loans, including EIDL

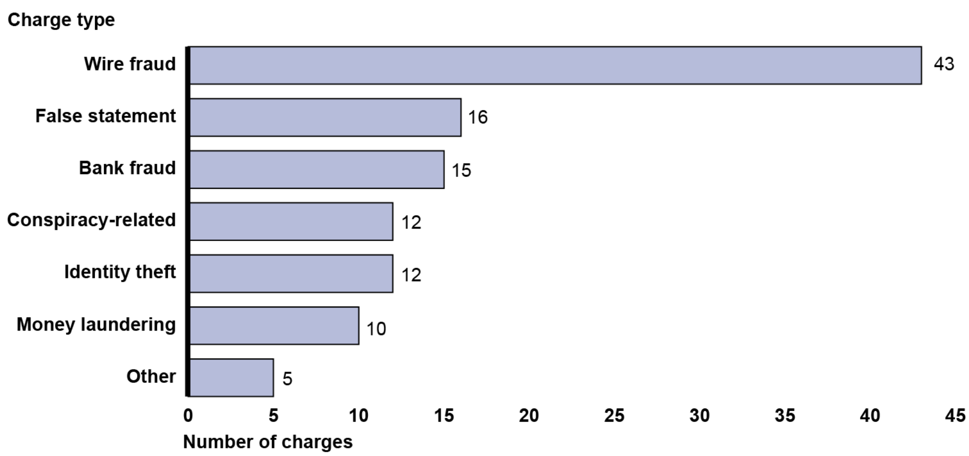
[36]See GAO-21-265. Institutions are required to electronically file a suspicious activity report when a transaction involves or aggregates at least $5,000 in funds or other assets, and the institution knows, suspects, or has reason to suspect that the transaction meets certain criteria qualifying as suspicious. Banks are also required to file a report for known or suspected criminal violations involving insider abuse of any amount, as well as violations aggregating $5,000 or more when a suspect can be identified, and $25,000 or more without a potential suspect. See, e.g., 31 C.F.R. § 1020.320. See also 12 C.F.R. §§ 21.11(c)(1)-(3), 163.180(d)(3)(i)-(iii) (OCC); 12 C.F.R. § 208.62(c)(1)-(3) (Federal Reserve); 12 C.F.R. § 353.3(a)(1)-(3) (FDIC). Although the filing of a suspicious activity report does not necessarily mean that fraud has occurred, law enforcement agencies query these reports and use them to support investigations, such as those related to EIDL fraud.

[37]See GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year,* GAO-21-387 (Washington, D.C.: Mar. 31, 2021).

loans—at least three times the number of investigations the office would typically open in a year.

In our analysis of 51 DOJ cases involving fraud charges for EIDL loans as of March 2021, we identified characteristics similar to those identified by SBA OIG and Federal Bureau of Investigation. Specifically, across the 51 cases in which DOJ filed fraud-related charges, we found that 19 involved identity theft, 39 involved false attestation, 39 involved fictitious or inflated employee counts, and 29 involved misuse of proceeds.[38] These cases included charges of bank fraud, wire fraud, false statements, money laundering, and identity theft (see fig. 8).

Figure 8: Department of Justice Fraud Charges Related to the Economic Injury Disaster Loan Program, as of March 2021



Source: GAO analysis of public federal court documents. | GAO-21-589

Note: A case could include multiple charges, so these categories are not mutually exclusive.

The 90 defendants in these 51 cases sought at least $15.4 million and received at least $12.2 million in EIDL funds. In 29 of the 51 cases, defendants allegedly spent EIDL funds on ineligible purchases, such as real estate, automobiles, cryptocurrency, and luxury goods. Defendants in six cases allegedly diverted at least $860,000 in EIDL funds overseas,

[38]As of March 2021, 13 of the 51 cases were closed. Of the 13 closed cases, 12 reached conclusion through a guilty plea and one was dismissed. Thirty-eight cases remained ongoing. We identified similar characteristics among closed and ongoing cases.

including transfers to the Dominican Republic, Ghana, Singapore, South Korea, Taiwan, Uganda, and the United Kingdom.

EIDL funds also allegedly went to fake and nonoperating businesses. Specifically, across the 51 cases, 18 involved funds going to fictitious entities, and 14 cases involved funds going to shell companies, which do not have employees or business operations (see text box for illustrative examples).[39]

Illustrative Examples of Fraud against the Economy Injury Disaster Loan Program (EIDL)

Ineligible business received disaster funds. A defendant who pleaded guilty to fraud against the EIDL program had falsely claimed eligibility for an EIDL loan, despite (1) his business not operating prior to the pandemic, (2) his criminal history, and (3) listing an ineligible address for his business. Although the defendant claimed to have operated a retail apparel business since 2015, he did not register it with his state until 2020. The defendant also falsely certified that he had no prior convictions despite being on parole. Lastly, the defendant listed his business address as a UPS store located in a strip mall, despite the EIDL application specifying that the primary business address could not be a post office box. The Small Business Administration disbursed $196,900 in EIDL funds to the defendant.

Defendant used shell companies and stolen personal information to obtain pandemic assistance. Another defendant applied for an EIDL loan for a shell company that had no operations or employees. The defendant used his mother's name to apply for an Employer Identification Number for the shell company. On the application, he falsely represented that the business had been operating since 2017 and had multiple employees and gross receipts of over $1,500,000. In total, the defendant applied for $750,000 and the Small Business Administration issued $299,800 in EIDL funds.

Source: GAO analysis of public federal court documents. | GAO-21-589

Our analysis indicated that many defendants were alleged to have committed other crimes in addition to EIDL fraud. For example, 30 of the 51 cases also involved alleged fraud against the Paycheck Protection Program, and eight cases involved alleged fraud against other pandemic-related programs, such as unemployment insurance fraud (see text box for illustrative example). Some cases also involved allegations of other crimes, such as romance scams, business email compromise schemes, and health care fraud.[40]

[39]Applicants in these examples applied for EIDL loans between March 2020 and July 2020.

[40]Romance scams occur when a criminal adopts a fake online identity to gain a victim's affection and trust. The scammer then uses the illusion of a romantic or close relationship to manipulate or steal from the victim.

Fraudster Targeted Multiple Federal Programs

A defendant pleaded guilty to fraud against the Economic Injury Disaster Loan (EIDL) program and other federal pandemic relief programs. On his EIDL application, the defendant fraudulently inflated the number of employees and salary information for his business, which provided goods and services to federal agencies. The defendant also targeted the Paycheck Protection Program, another Small Business Administration pandemic relief program. In total, the defendant received over $1 million in pandemic relief funds and spent those funds on ineligible expenses.

The defendant also pleaded guilty to making false statements for falsely claiming his business had N95 masks available to sell to other federal agencies seeking to purchase personal protective equipment. In addition, the defendant pleaded guilty to theft of government funds for attempting to obtain veterans' benefits by falsely claiming to have served in the U.S. Marine Corps.

Source: GAO analysis of public federal court documents. | GAO-21-589

Fraud against the EIDL program can have broad and serious effects on the government, the economy, and individuals. In addition to the financial losses and lost program delivery potential from unknown fraud, the government bears the burden of investigating and prosecuting the alleged fraud, which redirects resources law enforcement agencies could use to combat other crimes. Additionally, fraud resulting from internal control failures can have a reputational effect on government services, negatively affecting the public's trust in government. Fraud can also affect the broader economy. Fraud against public programs can distort markets by giving fraudsters unfair advantages, diverting fraudulently obtained money into the economy, and undermining efforts to maintain the integrity of the financial system. Finally, experiencing fraud, such as identity theft, can be a traumatic experience for victims, causing financial losses as well as serious psychological and emotional harm.

SBA's Application Review Process for EIDL-Related Programs Changed over Time to Address Fraud and Other Risks

Over the course of its COVID-19 response, SBA has made some changes to enhance its application review process and to identify potential fraud. These changes applied to both the automated validation system and the manual review process. SBA officials told us that some of the changes resulted from interactions with SBA OIG and that others resulted from loan officers who raised awareness about issues. For example:

- **Validating application inputs.** SBA made several changes to validate applicant information. For example, in May 2020, SBA changed the application such that the applicant must check each eligibility criterion before being able to proceed, added validation of bank account routing numbers, and added a function to identify mismatches between ZIP codes and states. In July 2020, SBA began to validate the types of tax identification numbers associated with the types of entity. In August 2020, SBA began to revalidate bank account information whenever the loan applicant changes this information.

- **Changing the application review process.** SBA OIG found that until August 2020, applications that did not contain certain fraud alerts flagged by the automated validation system were being approved by team leaders in batches and with little to no additional review by the team leaders.[41] However, these applications contained other issues that SBA did not review, such as the inability to confirm business registration. After August 2020, SBA stopped approving loans in batches and began requiring SBA staff to review all applications prior to approval and to mitigate all system alerts. SBA data showed that between April and August 2020, SBA approved about 3.2 million applications.
- **Addressing suspected fraud.** Beginning in June 2020, SBA took actions to improve loan officers' ability to withhold funding for applicants suspected of fraud. SBA set up teams to address suspected EIDL fraud, identity theft complaints, and financial institution inquiries, among other things, and added staffing to those teams. In particular, SBA created an email account for loan officers to report potential fraud internally to a team that reviews these cases and refers them to SBA OIG. SBA also created a reporting mechanism for victims of identity theft to request release from EIDL loan debt, as well as internal processes to review and validate those requests and refer those cases to SBA OIG.[42]

SBA has also made changes to the loan application review process in response to new legislation. SBA officials told us the CARES Act's restriction on using applicants' tax information presented a challenge for

[41]Small Business Administration, Office of Inspector General*, Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic*.

[42]In May 2021, SBA OIG made five recommendations to SBA related to identity theft and the EIDL program. The recommendations related to (1) developing a process to maintain and track all identity theft complaints; (2) developing a process to provide status updates to each complainant alleging identity theft; (3) completing and formalizing a process to restore identity theft victims to their conditions prior to the fraud; (4) developing a process to remove any fraudulent loans and fees; and (5) reviewing over 150,000 loan billing statements sent to EIDL borrowers that had been returned to SBA to resolve any that involved identity theft and refer fraudulent loans to SBA OIG. As of the report's publication in May 2021, SBA had addressed the recommendation related to review of loan billing statements. Small Business Administration, Office of Inspector General*, SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program* (Washington, D.C.: May 6, 2021).

validating applications. The agency had relied on self-certification of applicant information and the controls put in place as part of the automated validations and manual review. The Consolidated Appropriations Act, 2021 removed this restriction. SBA officials told us that beginning in April 2021, the agency had started incorporating tax information as part of its validation process for loan applications to confirm that businesses existed on or before January 31, 2020, a requirement for program eligibility, and to verify business revenue.

For targeted and supplemental advances, SBA built on the automated validations and manual review processes that existed for loan applications but incorporated additional requirements specific to targeted and supplemental advances. For example, to confirm eligibility, SBA began calculating applicants' income losses to ensure that applicants met legislative criteria for income loss, and it created a map to confirm that applicants reside in low-income areas. SBA obtains specific tax return information to confirm that applicants existed on or before January 31, 2020, and that applicants meet the income loss criteria imposed by legislation. Additionally, in March 2021, SBA began to use the Department of the Treasury's Do Not Pay service to verify recipients' eligibility for payment in order to reduce improper payments.[43]

SBA continues to rely on applicant self-certification for certain eligibility criteria (see table 2), as allowed by the CARES Act. The EIDL application informs applicants they are self-certifying under penalty of perjury.

[43]The Department of the Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can check multiple data sources to make payment eligibility decisions.

Table 2: Economic Injury Disaster Loan Program Eligibility Criteria and Validation

Eligibility criteria	Loans	Advances	Targeted and supplemental advances
Applicant must meet employee size limits.	Self-certification	Self-certification	Self-certification
Applicant cannot be a state, local, or municipal government entity, or a member of Congress.	Self-certification	Self-certification	Self-certification
Applicant cannot be engaged in illegal activity or production of products or services that have been determined to be obscene by a court. Applicant also cannot be primarily engaged in political or lobbying activities; present live performance of a prurient sexual nature; or derive more than one-third of gross annual revenue from legal gambling activities. Additionally, businesses whose purpose for being is gambling are not eligible.[a]	Self-certification	Self-certification	Self-certification
Business must have been established on or before January 31, 2020.	Self-certification until April 2021; thereafter, validation using tax information	Self-certification	Validation using tax information
Applicant cannot be engaged in lending or investment, speculative activities, multilevel sales distribution, real estate development or investment, or life insurance. Applicant also cannot earn more than one-third of its gross revenue packaging Small Business Administration (SBA) loans, have a business considered as a hobby, or be a pawn shop that derived more than 50 percent of prior year's income from interest.	Self-certification	Criteria not applicable	Self-certification
Business owners with 50 percent or more ownership interest must not be more than 60 days delinquent on child support.	Self-certification, credit report validation for child support delinquency	Self-certification	Self-certification, credit report validation for child support delinquency
Applicant must meet certain character requirements, including not having a felony within the last 5 years involving fraud, bribery, embezzlement, or a false statement in a loan application or an application for federal financial assistance. Additionally, applicant must not be currently incarcerated.	Self-certification	Criteria not applicable	Self-certification
Applicant must be a U.S. citizen, noncitizen national, or qualified alien.	Self-certification	Criteria not applicable	Self-certification
Applicant must be at least 18.	Self-certification	Criteria not applicable	Self-certification
Applicant must not be debarred from contracting with the federal government or receiving federal grants or loans.	Self-certification	Criteria not applicable	Self-certification
Applicant must meet certain SBA criteria related to franchises.	Self-certification	Criteria not applicable	Self-certification
Applicant must meet a minimum credit score.	Credit report validation	Criteria not applicable	Criteria not applicable
Applicant must not have open bankruptcy.	Credit report validation	Criteria not applicable	Criteria not applicable

Eligibility criteria	Loans	Advances	Targeted and supplemental advances
Applicant's economic injury must not be zero or negative.	Self-certification until April 2021; thereafter, validation using tax information	Criteria not applicable	Criteria not applicable

Source: GAO analysis of Small Business Administration documents. | GAO-21-589

[a]The restriction against businesses whose purpose for being is gambling applies to loans and targeted and supplemental targeted advances, but not advances.

A Number of Recommendations by GAO and Others to Address EIDL Fraud Risks Remain Unaddressed

GAO, SBA OIG, and SBA's financial statement auditor have made recommendations to address weaknesses in SBA's controls that may have led SBA to approve and disburse funds to potentially ineligible or illegitimate entities. SBA has not yet addressed many of these recommendations.

GAO Findings and Recommendations

As discussed earlier, in January 2021, we reported that our analysis of SBA data showed that the agency approved EIDL loans and advances for potentially ineligible businesses. We therefore recommended that SBA develop and implement data analytics across EIDL loans and advances made in response to COVID-19 as a means to detect potentially ineligible and fraudulent applications.[44] Data analytics can be used to detect potential fraud and can include a variety of techniques, such as data mining, data matching, and predictive analytics, to identity particular types of behavior. SBA neither agreed nor disagreed with this recommendation. In May 2021, SBA officials stated the agency was in the process of developing analysis to apply certain fraud indicators to all application data. These data include applicants' physical address, internet protocol address, email address, phone numbers, bank accounts, and tax identification numbers.

Additionally, in March 2021, we reported that SBA did not have a comprehensive plan to proactively assess controls and mitigate risks in the EIDL program in a timely manner and that SBA had not conducted a formal fraud risk assessment for the program.[45] We recommended that SBA

[44]GAO-21-265.

[45]GAO-21-387.

- implement a comprehensive oversight plan to identify and respond to risks in the EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud;
- conduct and document a fraud risk assessment for the EIDL program; and
- develop a strategy that outlines specific actions to address assessed fraud risks in the EIDL program on a continuous basis.

SBA agreed with the recommendations, stating that it would work to implement a comprehensive oversight plan for EIDL and ensure that a fraud risk assessment for EIDL is completed and that fraud risks are monitored on a continuous basis. In May 2021, SBA officials told us that the agency had begun the process of assessing fraud risk for its CARES Act programs, including EIDL. Officials also told us that SBA had not yet designated an anti-fraud entity to lead fraud risk management activities across the agency, but that it plans to do so by the end of fiscal year 2021.

SBA OIG Findings and Recommendations

In October 2020, SBA OIG reported weaknesses in SBA's controls that could have led SBA to disburse payments to ineligible entities.[46] These findings include that SBA did not adequately address alerts raised by the contractor's automated validation system and that SBA provided duplicate loans to applicants. SBA OIG made 10 recommendations to SBA. Among other things, SBA OIG directed SBA to review (1) loans with bank account number changes; (2) duplicate loans made to the same internet protocol addresses, email addresses, business addresses, and bank accounts; and (3) advances to determine the recipients' eligibility and legitimacy. SBA OIG also directed SBA to cancel all ineligible loans and recover funds from ineligible applicants. Additionally, SBA OIG directed SBA to strengthen its verification controls. In its report, SBA OIG stated that SBA partially agreed with nine recommendations and disagreed with one. The report stated that SBA took corrective actions to implement

[46]Small Business Administration, Office of Inspector General*, Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic*.

seven of the recommendations and that additional actions would be needed to address the remaining three recommendations.[47]

Financial Statement Auditor Findings and Recommendations

In December 2020, SBA's independent financial statement auditor identified, among other deficiencies, two material weaknesses in internal controls related to EIDL concerning (1) approval of EIDL loans and advances and (2) oversight of the contractor that maintains the EIDL application system.[48] As stated above, the auditor noted duplicate payments and payments to potentially ineligible borrowers. The auditor also stated that SBA did not adequately design and implement controls for the evaluation and monitoring of the contractor that developed and maintains the EIDL applications system. Specifically, SBA did not assess the contractor's controls relevant to the processing of EIDL loans and advances, including the operating effectiveness of its validation controls, such as duplicate application checks, bank account verification, and business owner identity checks. The auditor noted that the deficiencies were primarily caused by SBA prioritizing the implementation of CARES Act provisions and related legislation as quickly and efficiently as possible over designing and implementing effective internal control processes. In the case of EIDL, this included quickly distributing loans and advances without adequately designing and implementing controls to help ensure borrower eligibility and accurate recording of transactions.

The auditor made seven recommendations to SBA to address these two material weaknesses. Among other things, the auditor recommended that SBA (1) review the EIDL portfolio and determine which transactions were made to ineligible recipients; (2) implement controls to detect or prevent

[47]SBA disagreed with the OIG's recommendation to check employee identification number dates for EIDL to flag erroneously approved loans and advances as improper payments. SBA did not fully resolve two recommendations. To close those recommendations, SBA OIG stated that SBA should (1) cancel ineligible loans that were not disbursed, recover funds from all loans already disbursed, and flag those loans for the improper payments estimates process, and (2) provide evidence that the agency reviewed approved loans to determine if there are undisbursed funds remaining that should be suspended until the business establishment date is verified and the applicant is deemed eligible.

[48]Small Business Administration, Office of Performance Management and the Chief Financial Officer, *Agency Financial Report, Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

loans from being approved for ineligible applicants; (3) train loan officers and supervisory loan officers to execute their responsibilities using established guidance and standard operating procedures; and (4) enhance its review and evaluation of contractor controls.

The auditor also reported a material weakness in SBA's entity-level controls, citing that SBA management did not properly design and implement overall effective management controls to account for new and expanded programs, such as EIDL, under the CARES Act and related legislation. The auditor issued five recommendations to improve entity-level controls, including that SBA hold accountable individuals responsible for overseeing management's design, implementation, and operation of SBA's internal control system; developing and implementing monitoring controls; and documenting internal controls related to implementing the CARES Act and related legislation.

SBA disagreed with the material weaknesses related to approval of EIDL loans and advances and SBA's entity-level controls and partially agreed with the material weakness related to EIDL contractor oversight. SBA neither agreed nor disagreed with the recommendations. In May 2021, SBA officials stated that the agency had reviewed the findings identified in the financial statement auditor's report and had been working with RER Solutions to implement the recommendation related to contractor oversight. In particular, officials stated that the contractor had engaged a firm to develop a report for the controls relevant to the processing of EIDL loans and advances.[49] SBA officials stated that this report will allow SBA to evaluate the adequacy of the contractor's controls related to processing EIDL loans and advances.

SBA's Oversight of the Contractor Used to Process Loans and Advances

SBA relies on RER Solutions—the prime contractor—to oversee and evaluate subcontractor performance. SBA officials said they focus on whether RER Solutions meets performance requirements and do not have insight into how the company evaluates subcontractors' performance. A representative from RER Solutions told us that given the urgency of the pandemic, the company's evaluations of subcontractors have been on an informal basis as issues have arisen.

While SBA does not directly oversee the subcontractors, SBA officials said that the agency worked closely with the subcontractors to implement EIDL program requirements. For example, SBA provided program

[49]SBA's contract with RER Solutions did not require such a report.

requirements, such as eligibility criteria, to Rapid Finance. Additionally, SBA officials told us the agency selected certain fraud checks from a suite of Rapid Finance's options. Similarly, representatives from RER Solutions and the subcontractors told us SBA requested certain changes or additions to Rapid Finance's validation system and provided guidance through frequent emails and conference calls. Additionally, a representative from RER Solutions told us SBA officials interacted directly with Rapid Finance—such as through daily calls—to ensure its platform met SBA's needs. As part of ongoing program implementation, SBA officials said RER Solutions and the subcontractors continue to hold daily calls with SBA.

SBA's contract requires that RER Solutions provide certain documents, including documents that specify expected risk and risk mitigation and project plans. However, SBA officials told us that due to the urgency of the pandemic, the agency has not requested certain documents specified in the contract. Rather, SBA receives other documentation from RER Solutions that is not specified in the contract. Specifically, RER Solutions provides a work plan that records the progress of work tasks and goals and technical issues. Additionally, RER Solutions provides SBA with daily, weekly, and monthly reports that monitor application intake and processing.[50] A representative from RER Solutions told us that the company and the subcontractors have provided these reports and other additional information as requested by SBA, beyond the requirements specified in the contract. SBA officials said that such reports help SBA to determine whether the contract meets performance requirements stated in the contract and whether the contractor is maintaining efficiency and effectiveness.[51]

[50]RER Solutions and Rapid Finance both stated that Rapid Finance produces these reports.

[51]SBA's contract with RER Solutions states that the contractor is to provide recommendations to approve or decline applicants within 10 minutes of receiving data from the application. However, SBA staff make all final decisions related to applications.

Smaller and Older Businesses Received Larger Loans and Were Approved at Higher Rates, and Wealthier Communities Received More Funding

Characteristics of EIDL Applicants and Loan Recipients Varied

Our analysis of the 12.5 million nonduplicate EIDL loan applications received between March 2020 and February 2021 showed that EIDL applicants and loan recipients varied in terms of business size (measured by the number of employees), years in operation, and industry.[52] Generally, the smallest and oldest businesses were most successful in obtaining loans.

Business Size

Businesses with fewer than 10 employees, which make up about 94 percent of the businesses in the United States, also made up the majority of EIDL applicants. Most loan applicants (81.1 percent), as well as the majority of approved applicants (86.3 percent), had fewer than 10 employees. SBA approved loans for businesses with 10 or fewer employees at a higher rate than for larger businesses (see table 3). Businesses with over 500 employees had a lower approval rate.

[52]The data consisted of about 3.7 million approved applications, 6 million declined applications, 2.6 million withdrawn applications, and 123,000 other applications, such as applications SBA is currently processing. Where we describe all applicants, we analyzed the data for all applicants. We analyzed approval rates using only the data for approved and declined applications. We analyzed the characteristics of approved applicants using only the data for approved applications. For the purposes of this analysis, approved loans consist of applications that SBA has funded or for which SBA is obligating or has obligated funds.

Table 3: Economic Injury Disaster Loan Approval Rates by Business Size, March 2020–February 2021

Business size	Approval rate (percentage)
0–10 employees	38.5
11–49 employees	35.3
50–500 employees	34.6
501 or more employees	11.2
Overall	**38.2**

Source: GAO analysis of Small Business Administration data. | GAO-21-589

Larger businesses generally received larger loans than smaller businesses, but businesses with 10 or fewer employees received a majority of EIDL loan dollars (see table 4). The average approved loan amount was greatest for businesses with between 50 and 500 employees ($144,320), although it was less for the largest businesses. Several factors may have affected the loan amounts business received, including SBA's calculation of economic injury for businesses using gross revenue and cost of goods sold, applicants self-selecting the loan amount, and the $150,000 loan limit SBA had in place from May 2020 through April 2021.[53]

Table 4: Average Economic Injury Disaster Loan (EIDL) Amount and Percentage of Total Loan Dollars, by Business Size, March 2020–February 2021

Business size	Average loan amount ($)	Percentage of total loan dollars
0–10 employees	45,793	76.6
11–49 employees	118,467	20.5
50–500 employees	144,320	2.9
501 or more employees	84,999	0.0
Overall	**53,593**	**100**

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: Overall, SBA provided about $200.4 billion in EIDL loans between March 2020 and February 2021. SBA provided loans to 994 businesses with 501 or more employees.

Age of Business

The majority of EIDL applicants had been in operation for less than 5 years (62.5 percent), but older businesses had a higher approval rate and

[53]SBA increased the loan limit from $150,000 to $500,000 on April 6, 2021. The data needed to analyze the effect of this increase were not available within our reporting time frames.

received larger loans (see table 5). For example, the average loan size for businesses in operation for less than 5 years was about $40,300, compared to $65,353 for businesses in operation for between 5 and 10 years. In addition, businesses in operation for more than 5 years received the majority of total loan dollars.

Table 5: Economic Injury Disaster Loan (EIDL) Approval Rate, Average Loan Amount, and Percentage of Total Loan Dollars, by Age of Business, March 2020–February 2021

Years in operation	Approval rate (percentage)	Average loan amount ($)	Percentage of total loan dollars
2 years or less	23.8	32,290	13.1
Greater than 2 years to 5 years	34.8	47,263	22.1
Greater than 5 years to 10 years	48.7	60,243	22.6
Greater than 10 years	58.0	68,454	42.3
Overall	**38.2**	**53,621**	**100**

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: Overall, SBA provided about $200.4 billion in EIDL loans between March 2020 and February 2021.

Industry

Loan application volume, approval rates, and average loan size varied widely by industry.[54] SBA received the largest number of applications from businesses in the personal services (such as hair and nail salons and dry cleaning), transportation, construction and contractors, retail, and business services industries (see table 6).[55] An early study of the industry-by-industry effects of COVID-19 showed that several of these industries—including personal services, restaurants and bars, and travel and transportation—were the most exposed to economic damage.[56]

[54]SBA's EIDL application allowed applicants to select from a list of industry types. For some industries, such as retail, SBA provided a list of subcategories under a primary category. For other industries, such as agriculture, SBA did not provide a list of subcategories under the primary category. We analyzed the primary categories shown on SBA's application.

[55]We excluded from our analysis industries with fewer than 1,000 applications or applications that did not list a business activity. These applications represented less than 1 percent of all applications.

[56]Joseph S. Vavra, *Shutdown Sectors Represent Large Share of All U.S. Employment* (Chicago, IL: Becker Friedman Institute for Economics at the University of Chicago, Mar. 27, 2020), accessed April 12, 2021, https://bfi.uchicago.edu/insight/finding/shutdown-sectors-represent-large-share-of-all-us-employment/.

Table 6: Top 10 Industries by Number of Economic Injury Disaster Loan (EIDL) Applicants, March 2020–February 2021

Industry	Number of EIDL loan applicants	Percentage of total applicants
Personal services	1,373,434	14.0
Transportation	952,644	9.8
Construction and contractors	887,001	9.0
Retail	856,545	8.8
Business services	694,447	7.1
Miscellaneous services	679,061	7.0
Real estate	590,179	6.0
Health services	551,818	5.6
Agriculture	538,295	5.5
Entertainment services	378,821	3.9
Other industries	2,271,946	23.3
Total	**9,774,191**	**100**

Source: GAO analysis of Small Business Administration data. | GAO-21-589

Applicants in the legal services field had the highest approval rate of any industry (63.2 percent), followed by hotel and lodging, real estate, mining, and manufacturing (see table 7).[57] In contrast, applicants in agriculture and personal services had the lowest approval rates (20.7 and 27.1 percent, respectively).

Table 7: Top 10 Industries by Economic Injury Disaster Loan Approval Rate, March 2020–February 2021

Industry	Approval rate (percentage)
Legal services	63.2
Hotels and lodging	57.2
Real estate	55.9
Mining and natural resources extraction	51.9
Manufacturing	50.7
Health services	49.9
Religious services	49.9
Insurance	49.5

[57]To improve data reliability for this analysis, we excluded about 9,900 applications, including applications for businesses that did not clearly fall under the industry categories SBA established. As a result, the overall approval rate for industries differs from the approval rate for the entire population of applicants.

Industry	Approval rate (percentage)
Automotive sales and gas stations	48.8
Finance	48.0
All industries	**38.1**

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-21-589

Note: To improve data reliability for this analysis, we excluded about 9,900 applications, including applications for businesses that did not clearly fall under the industry categories SBA established. As a result, the overall approval rate for industries differs from the approval rate for the entire population of applicants.

In terms of average loan size, eating and drinking places (such as bars and restaurants) received the largest loans ($92,618) (see table 8). Businesses in personal services received the smallest average loans ($29,323), followed by transportation ($39,172) and real estate ($40,572).

Table 8: Top 10 Industries by Economic Injury Disaster Loan Average Loan Amount, March 2020–February 2021

Industry	Average loan amount ($)
Eating and drinking places	92,618
Manufacturing	85,280
Automotive sales and gas stations	82,177
Wholesale trade	76,980
Hotels and lodging	75,770
Mining and natural resources extraction	75,550
Health services	68,027
Food and beverage stores	66,314
Storage	65,981
Legal services	63,883
All industries	**53,634**

Source: GAO analysis of Small Business Administration data. | GAO-21-589

Industries with the largest shares of EIDL applicants tended to have large numbers of businesses with either no employees or one employee. For example, more than half of applicants in the personal services, transportation, and business services industries each had one employee or none. However, in each of these industries, more than half of total loan dollars went to larger businesses, as larger businesses received larger loans on average.

Small Businesses in More Diverse and Wealthier Communities Received More Loans

Our analysis of EIDL applicant and Census Bureau data found that small businesses located in counties with higher median household income and better internet access generally had better EIDL lending outcomes as measured by the number of loans per 1,000 businesses, amount of loans per employee, and approval rates.[58] In addition, more diverse communities, as measured by the share of the county's minority population, had more loans per 1,000 small businesses.[59] Businesses in more diverse communities also had larger loan amounts on a per-employee basis, but lower approval rates. See appendixes II and III for analysis of other socioeconomic and demographic variables at the county level and by tabulated ZIP code areas.

Median Household Income

EIDL applicants in counties with median household incomes above the national estimate (about $63,000) had a higher approval rate than those located in counties with lower median household incomes (see fig. 9).[60] Applicants in these counties received larger loans on a per-employee basis. Additionally, counties with higher median household income had more loans per 1,000 small businesses.

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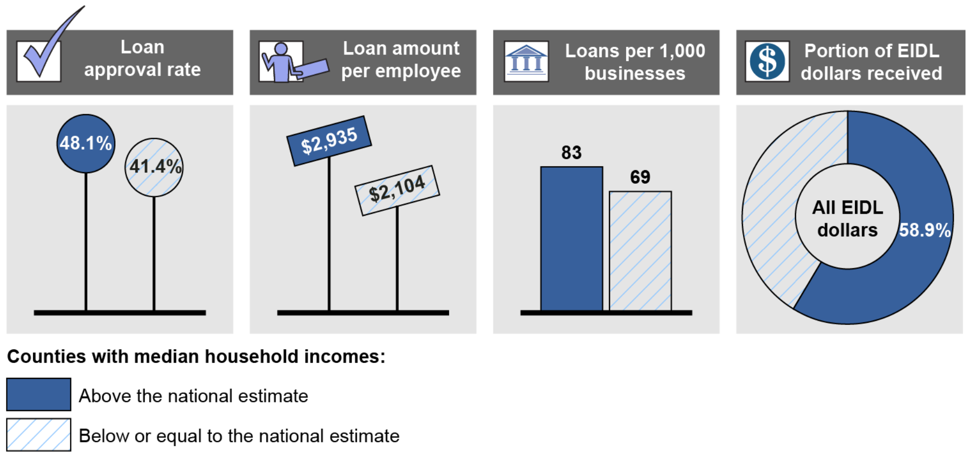
[58]We combined SBA's EIDL applicant data with socioeconomic, demographic, and geographic data at the county level to examine characteristics of the counties in which applicants and borrowers were located. We used data from the Census Bureau's 2015–2019 American Community Survey to define and compute socioeconomic and demographic characteristics. We used data from the U.S. Department of Agriculture's (USDA) Economic Research Service to classify counties as metro or nonmetro and data from the Census Bureau to identify tribal lands. We focused on median household income and internet access as socioeconomic indicators because they may be closely related to EIDL eligibility and access—for example, SBA requires that business submit applications online only.

[59]For the purposes of this analysis, we define "minorities" as the non-White share of a county's population.

[60]According to our analysis of data from the 2015–2019 American Community Survey, the national 5-year estimate for median household income in the United States based on 2019 inflation-adjusted dollars was $62,843.

Figure 9: Economic Injury Disaster Loan (EIDL) Lending Outcomes by Median Household Income



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: According to our analysis of data from the 2015–2019 American Community Survey, the national 5-year estimate for median household income in the United States based on 2019 inflation-adjusted dollars was $62,843.

Variation in median household income may have affected EIDL application outcomes and the distribution of loans across counties. Research by the Board of Governors of the Federal Reserve System (Federal Reserve) has found some correlation between income and credit scores.[61] SBA used credit score as a key underwriting criterion to approve or decline a loan application. Thus, differences in median household income, and potentially credit scores, might help to explain lower approval rates in counties with lower median income as compared to counties with higher median income. Additionally, recent work by the National Bureau of Economic Research found that pandemic-related business closures resulted in larger revenue losses for small businesses located in wealthier ZIP codes because of larger overall declines in consumer spending by

[61]Rachel Beer, Felicia Ionescu, Geng Li, "Are Income and Credit Scores Highly Correlated?" *FEDS Notes,* accessed April 28, 2021, https://www.federalreserve.gov/econres/notes/feds-notes/are-income-and-credit-scores-highly-correlated-20180813.htm.

high-income individuals.[62] The larger decline in spending and relatively higher rate of business closures in more affluent areas may have resulted in a greater need in those areas. This could, in part, account for businesses in counties with higher median income receiving more loans per 1,000 small businesses.

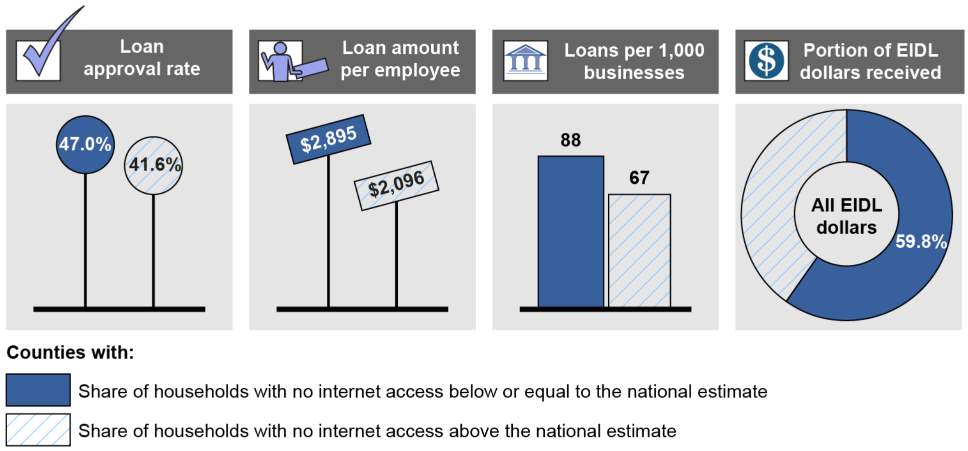
Internet Access

EIDL applicants in counties with better internet access—that is, where the share of households with no internet access is below the national estimate (13.9 percent)—had better EIDL lending outcomes as compared to applicants in counties where that share is above the national estimate (see fig. 10).[63] Applicants in counties with better internet access had higher approval rates and received larger loans on a per-employee basis. Additionally, these counties had more loans per 1,000 small businesses.

[62]Raj Chetty, John N. Friedman, Nathaniel Hendren, Michael Stepner, Opportunity Insights Team, *How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real Time Economic Tracker Based on Private Sector Data* (Cambridge, MA: National Bureau of Economic Research, 2020). The authors found that small business revenues fell by 50 percent for businesses located in the richest 5 percent of ZIP codes, compared to revenue losses of 35 percent for small businesses located in the poorest 5 percent of ZIP codes. Small business revenue data came from Womply, which records revenues from credit card transactions for small businesses (as defined by SBA), and income data for ZIP codes came from the Census Bureau's 2014–2018 American Community Survey. The analysis compared revenues during a baseline period prior to the COVID-19 shock (Jan. 4, 2020–Jan. 31, 2020) to the period immediately after the COVID-19 shock but prior to the stimulus program (Mar. 25, 2020–Apr. 14, 2020).

[63]According to our analysis of data from the 2015–2019 American Community Survey, the national 5-year estimate of the share of households without internet access is 13.9 percent.

Figure 10: Economic Injury Disaster Loan (EIDL) Lending Outcomes by Household Internet Access



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: The national 5-year estimate for share of households with no internet access is 13.9 percent, according to our analysis of data from the 2015–2019 American Community Survey.

Differences in counties' internet connectivity may be linked to other socioeconomic and geographic characteristics affecting EIDL application outcomes. According to the 2018 Census Bureau American Community Survey, a larger percentage of households in urban areas reported owning any type of computer and having broadband subscriptions compared with households in rural areas across almost every region of the country.[64] Differences in internet access across counties may have influenced who did and did not apply to the EIDL program because the EIDL application could only be accessed online and the distribution of the information about the program was generally limited to online forums, such as webinars, as a result of the pandemic. For example, representatives of one SBDC noted that many small businesses in their region were in rural areas and lacked adequate technology infrastructure to navigate the internet. Accordingly, our analysis found that the absolute number of total approved and declined applications was higher in counties with better internet connectivity. The number of loans per 1,000

[64]Census Bureau, *Computer and Internet Use in the United States: 2018* (Washington, D.C.: 2021). "Any type of computer" includes at least one of the following: desktop or laptop, smartphone, or tablet or other portable wireless computer. A "broadband" internet subscription refers to having at least one type of internet subscription other than a dial-up subscription alone.

small businesses was also lower in counties with lower rates of internet access.

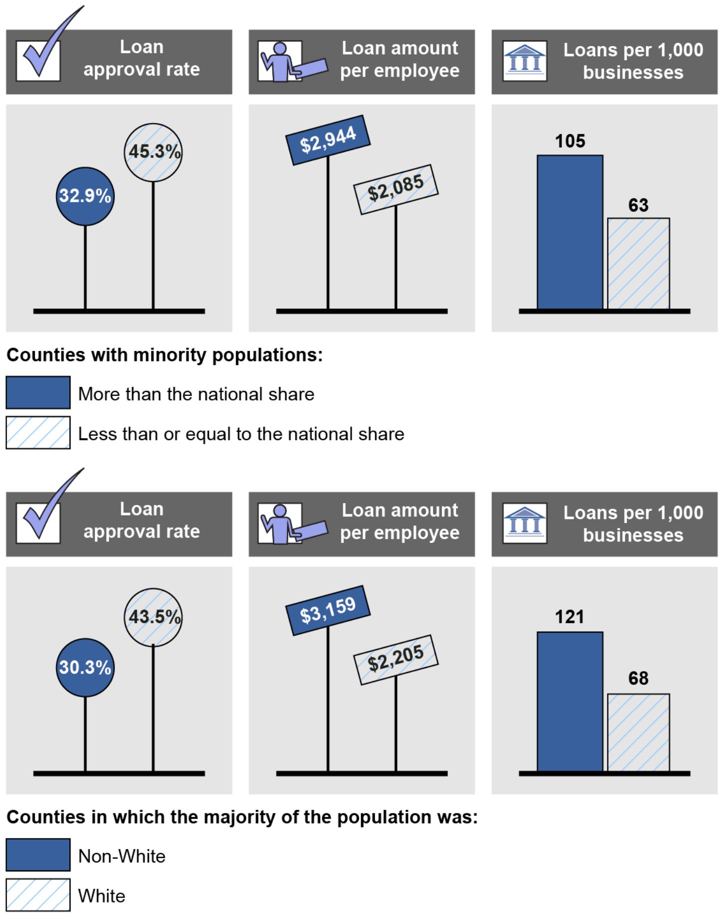
As discussed earlier, counties with higher median incomes had higher approval rates and wealthier areas had larger pandemic-related losses. Wealthier areas also have better internet connectivity. Specifically, the Census Bureau found that 99 percent of households earning $150,000 or more had some sort of computing device, compared to only 77 percent of households making less than $25,000 per year.[65] This may help to explain similarities in EIDL lending outcomes between communities with high median household incomes and high rates of internet connectivity.

Community Diversity

EIDL lending outcomes were similar for counties where the minority population made up the majority and counties where the percentage of minority population was greater than the national percentage of minority population (27.5 percent) (see fig. 11). Applicants in counties with larger minority populations had lower approval rates but received larger loan amounts per employee. Additionally, these counties received more loans per 1,000 small businesses than counties with smaller minority populations.

[65]Census Bureau, *Computer and Internet Use*.

Figure 11: Economic Injury Disaster Loan Program Lending Outcomes by County Minority Population



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: According to our analysis of data from 2015–2019 American Community Survey, 27.5 percent of the U.S. population identifies as non-White (or minority).

Underlying correlations between demographic measures and socioeconomic indicators at the county level may contribute to differences in EIDL application outcomes across counties. According to the Census Bureau's 2015–2019 American Community Survey, a county's median household income was negatively correlated with its share of minority residents. The American Community Survey also found in 2018 that that median income among Black and Hispanic Americans was lower than for

White and Asian Americans.[66] As stated earlier, SBA used credit score as a key underwriting criterion to approve or decline loan applications, and some correlation exists between income and credit score. According to the Federal Reserve's 2018 Small Business Credit Survey, Black and Hispanic small business owners reported lower credit scores on average compared to White and Asian small business owners.[67] Lower median income and lower credit scores may help explain why approval rates for businesses were lower in counties with higher minority shares, especially counties with larger Black and Hispanic populations.

Differences in access to financing that exist among different demographics may also contribute to variations in EIDL lending outcomes. In the 2020 Small Business Credit Survey, the Federal Reserve found that, compared to White-owned small businesses, a larger percentage of Black, Hispanic, and Asian-owned businesses self-reported being in poor financial condition, and a smaller percentage reported receiving the full amount of funding sought from banks and other sources of credit.[68] Prior to the pandemic, Black and Hispanic small business owners were also more likely to apply for SBA financing.[69] Taken together, these factors may have increased interest in the EIDL program in these counties and driven higher levels of program activity, as our analysis found that counties with larger minority populations had more total approved and declined EIDL applications than those with smaller minority populations.

[66]Census Bureau, *Household Income: 2018* (Washington, D.C.: 2019).

[67]Federal Reserve Bank of Atlanta, *Small Business Credit Survey: Report on Minority-Owned Firms* (Atlanta, GA: 2019).

[68]Board of Governors of the Federal Reserve System, *Small Business Credit Survey: 2021 Report on Employer Firms* (2021). The 2020 Small Business Credit Survey collected responses from over 9,600 small businesses throughout the United States. While the survey respondents are not drawn from a random sample, survey results are weighted by firm age, industry, number of employees, and geography to ensure that results are nationally representative. The Federal Reserve conducted the survey in September and October 2020, approximately 6 months after the onset of the pandemic.

[69]Federal Reserve Bank of Atlanta, *Small Business Credit Survey: Report on Minority-Owned Firms*. The 2018 Small Business Credit Survey collected responses from over 6,600 small businesses throughout the United States. While the survey respondents are not drawn from a random sample, survey results are weighted by firm age, industry, number of employees, and geography to ensure that results are nationally representative.

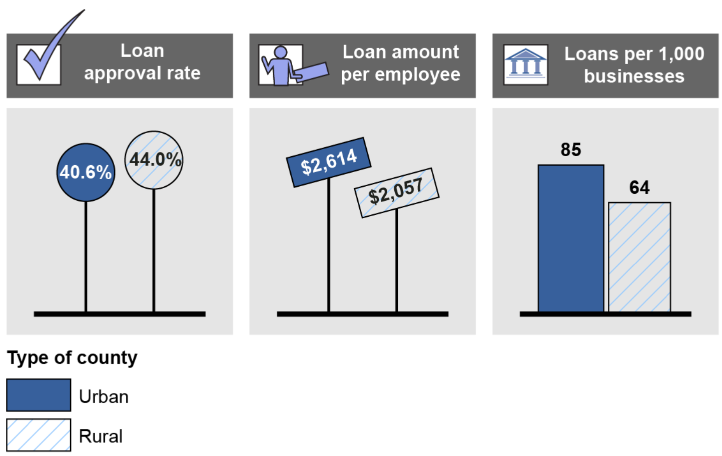
EIDL Lending Outcomes Varied by Geography

Our analysis of EIDL applicant, Census Bureau, and other data found that EIDL program lending outcomes varied by geographic location. We examined lending outcomes for urban and rural counties and tribal lands, as well as nationwide trends across geographic regions.

Urban and Rural Areas

EIDL lending outcomes were mixed for urban and rural counties (see fig. 12).[70] Applicants in urban counties had lower approval rates than applicants in rural counties, but received larger loans on a per-employee basis. Additionally, urban counties received more loans per 1,000 small businesses as compared to rural counties.

Figure 12: Economic Injury Disaster Loan Program Lending Outcomes for Urban and Rural Counties



Source: GAO analysis of Small Business Administration, Census Bureau, and 2017 Department of Agriculture data. | GAO-21-589

Underlying correlations between a county's urban or rural classification and its demographic and socioeconomic characteristics may contribute to differences in EIDL lending outcomes across counties. For example, minority-owned small businesses tend to be more highly concentrated in

[70] USDA's Economic Research Service designated each U.S. county as metro or nonmetro. Metro areas include all counties with urban areas containing 50,000 people or more. Metro areas also include outlying counties that are economically tied to the central counties, as measured by the share of workers commuting on a daily basis to the central counties. Nonmetro counties are outside the boundaries of metro areas and have no cities with 50,000 residents or more. For the purposes of this report, rural counties are "nonmetro" counties and urban counties are "metro" counties designated by USDA in 2017.

urban areas relative to White-owned businesses.[71] This may explain similar EIDL lending outcomes for urban counties and counties with larger shares of minority populations. Differences in rural or urban characteristics may also contribute to differences in approval rates. According to the 2016 Small Business Credit Survey, small businesses in rural areas self-reported higher credit scores on average compared to businesses in urban areas.[72] As discussed previously, credit scores might help to explain differences in approval rates across counties, as reflected in higher approval rates for businesses located in rural areas.

Tribal Areas

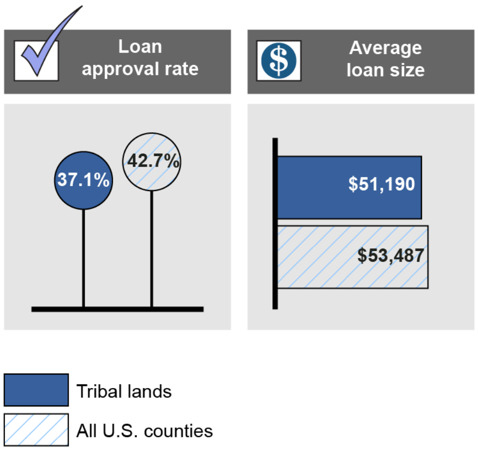
Small businesses located on tribal lands had lower approval rates and smaller average EIDL loans as compared to all U.S. counties (see fig. 13).[73] SBA approved 25,606 EIDL loans to small businesses on tribal lands, which represented less than 1 percent of all EIDL lending.

[71]Federal Reserve Bank of Atlanta, *Small Business Credit Survey: Report on Minority-Owned Firms*.

[72]Federal Reserve Bank of Richmond, *Small Business Credit Survey: Report on Rural Employer Firms* (Richmond, VA: 2017). The 2016 Small Business Credit Survey collected responses from over 10,300 small businesses throughout the United States. While the survey respondents are not drawn from a random sample, survey results are weighted by firm age, industry, number of employees, and geography to ensure that results are nationally representative.

[73]We analyzed information for loans to businesses located on tribal lands, regardless of whether the businesses themselves were Indian-owned. Tribal lands we analyzed included federally recognized American Indian reservations and off-reservation trust land areas, state-recognized American Indian reservations, and Hawaiian home lands for which the Census Bureau publishes data. We were unable to scale EIDL lending outcomes for tribal areas by the loan amount per employee or number of loans per 1,000 small businesses because data on the number of businesses in tribal areas were unavailable.

Figure 13: Economic Injury Disaster Loan Program Lending Outcomes for Tribal Lands



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Underlying correlations between demographic measures and socioeconomic indicators contribute to differences in EIDL lending outcomes for businesses located on tribal lands. For example, Census Bureau data have shown median income among American Indians and Alaska Natives to be lower than for White and Asian Americans, which may have contributed to lower approval rates for businesses on tribal lands. Additionally, several factors can make successful business development on tribal lands more difficult, including limited access to capital and a lack of technology infrastructure (e.g., telecommunications lines and internet access).

Nationwide Trends in Lending Outcomes

We found that counties within four geographic regions of the United States tended to have similar EIDL lending outcomes for certain measures.[74]

Of the 1,229 counties with more than the average number of EIDL loans per 1,000 small businesses, 726 were located in the Census Bureau's

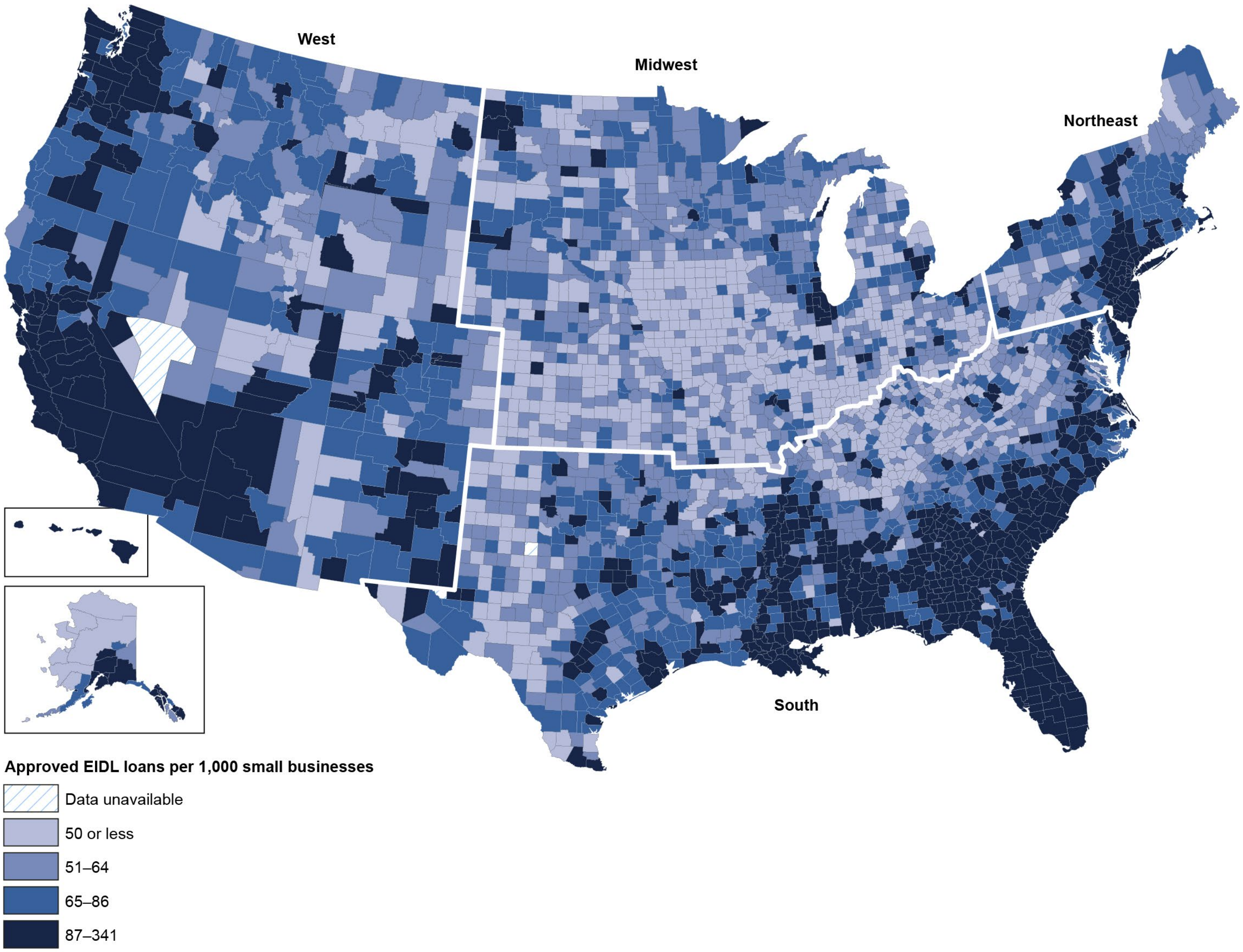
[74]For this analysis, we used the Census Bureau's regional definitions. The Census Bureau divides the United States into four geographic regions: Midwest, Northeast, South, and West. Counties differ in size by land area across both states and regions and, thus, reported results should not necessarily be interpreted as being proportionately, or disproportionately, allocated across regions

South region (see fig. 14).[75] The Northeast region had the highest percentage of counties with more than the average number of loans per 1,000 small businesses (58.1 percent), while the Midwest region had the smallest percentage of such counties (12.6 percent).[76]

[75]The Census Bureau's South region includes the following states: Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, Alabama, Kentucky, Mississippi, Tennessee, Arkansas, Louisiana, Oklahoma, and Texas. The region also includes Washington, D.C.

[76]The Census Bureau's Northeast region includes the following states: Connecticut, Maine, Vermont, Massachusetts, New Hampshire, Rhode Island, New York, New Jersey, and Pennsylvania. The Midwest Region includes the following states: Indiana, Illinois, Michigan, Ohio, Wisconsin, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Figure 14: Approved Economic Injury Disaster Loans (EIDL) Per 1,000 Small Businesses by County, March 2020–February 2021

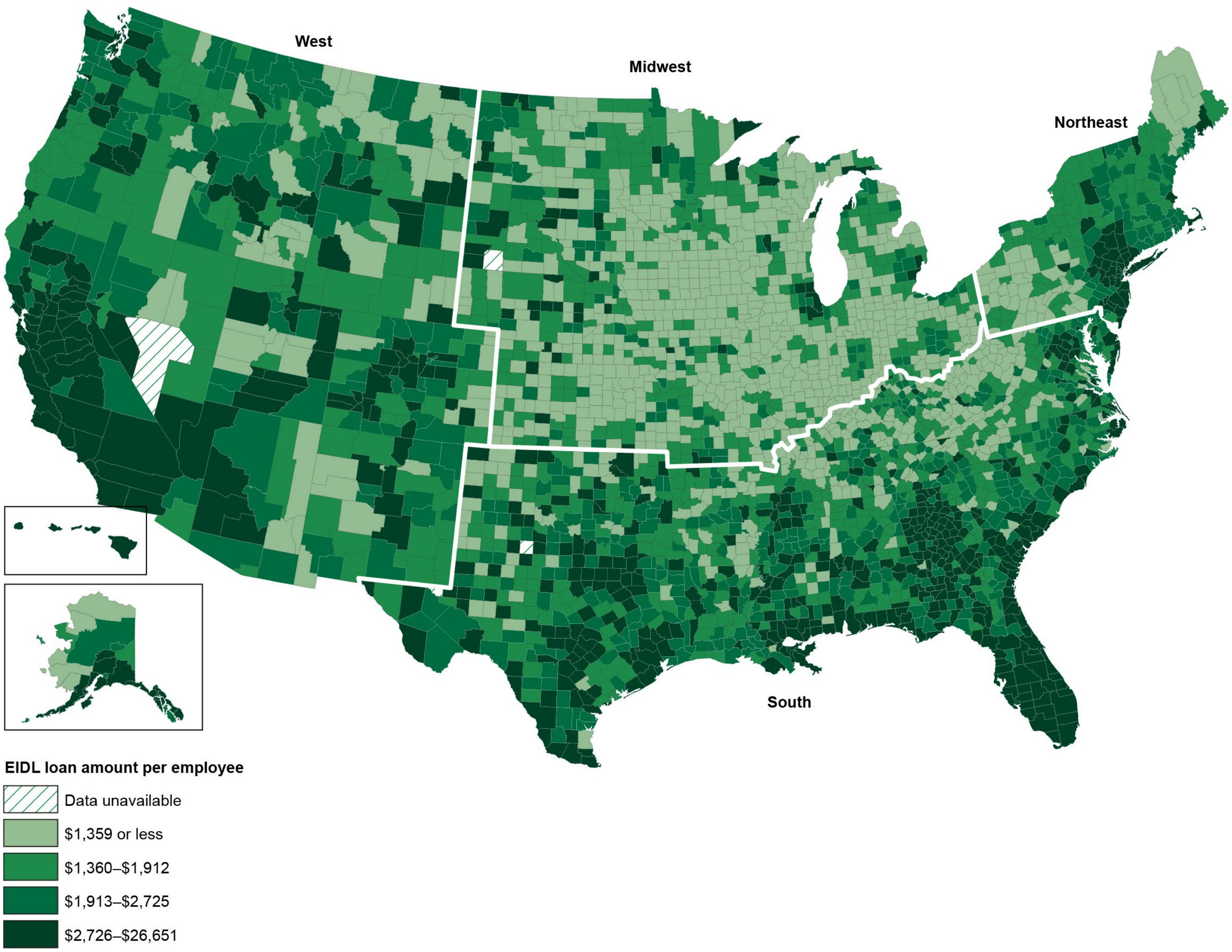


Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Similarly, of the 1,174 counties with above-average loan amounts per employee, 718 were located in the Census Bureau's South region (see fig. 15). The West region had the highest percentage of counties with above-average loan amounts per employee (56.3 percent), while the

Midwest region had the lowest percentage of such counties (11.2 percent).

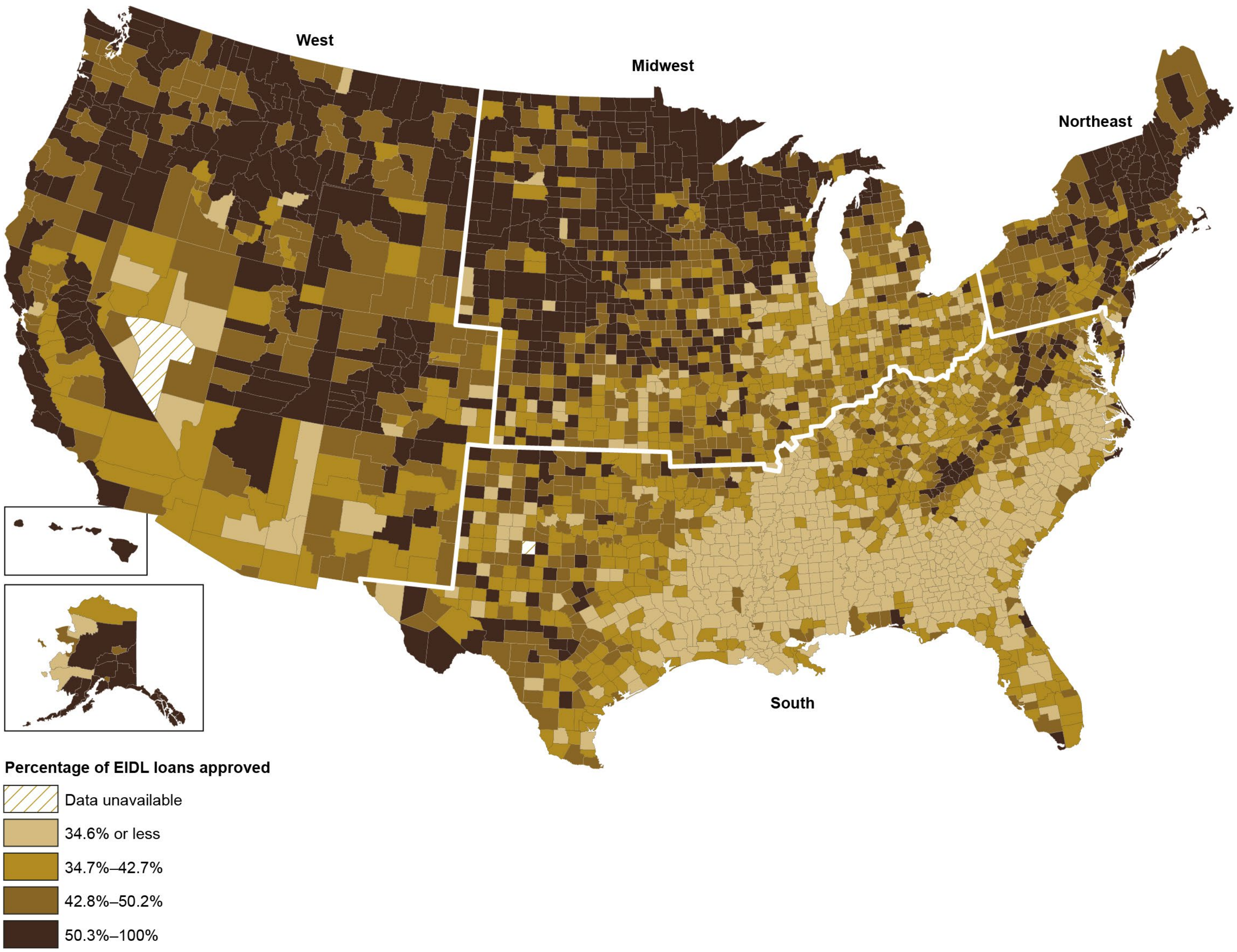
Figure 15: Economic Injury Disaster Loan (EIDL) Amount per Small Business Employee by County, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Of the 1,569 counties with above-average approval rates, 656 were located in the Census Bureau's Midwest region (see fig. 16). The West region had the highest percentage of counties with above-average approval rates (82.3 percent), while the South region had the lowest number of such counties (26 percent).

Figure 16: Approval Rate for Economic Injury Disaster Loans (EIDL) by County, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

We also found that the West region had the highest share of counties that had better EIDL lending outcomes in all three measures. Of the 383 counties with all three EIDL lending outcome measures (loans per 1,000 small businesses, loan amounts per employee, and approval rates) above the national average, the West region had the highest number of these counties (170 counties), while the Midwest region had the lowest number (42 counties).[77]

Conclusions

In response to the COVID-19 pandemic, SBA moved quickly under challenging circumstances to provide EIDL funding to applicants, benefiting many small businesses. However, SBA did not communicate with potential and actual applicants key information—such as processing times and loan limits—and their loan status in an effective, consistent, or timely manner. SBA has two plans to guide the agency's communication efforts about loan programs, but these plans do not cover what information program participants, including applicants, should receive and when. Developing a comprehensive strategy for communicating with potential and actual applicants in the event of a disaster would benefit both SBA and its program participants. For example, by providing clear information on the time frames and status of applications, SBA could reduce applicant confusion and uncertainty. In turn, this could lessen the burden on SBA's resources created by applicants submitting duplicate applications and contacting SBA's Customer Service Center.

In addition, we and others have found the EIDL program to be susceptible to the risk of fraud and provision of funding to ineligible applicants, and have made a number of recommendations to address these risks, such as to conduct a fraud risk assessment for the EIDL program. SBA has not fully implemented our recommendations, but officials stated the agency has begun the process of conducting a fraud risk assessment of the EIDL program. Fully implementing these recommendations would help SBA to safeguard billions of dollars of taxpayer funds and improve the operation of the EIDL program.

Recommendation for Executive Action

The Associate Administrator of SBA's Office of Disaster Assistance should develop a comprehensive strategy for communicating with potential and actual program applicants in the event of a disaster. Such a strategy should provide guidelines for the types of information and timing of information to be provided to program participants throughout a disaster. The types of information to be addressed in the strategy could

[77]The Census Bureau's West region includes the following states: Arizona, Colorado, Idaho, New Mexico, Montana, Utah, Nevada, Wyoming, Alaska, California, Hawaii, Oregon, and Washington.

include processing steps and time frames applicants might experience through different stages of the loan process. (Recommendation 1)

Agency Comments and Our Evaluation

We provided a draft of this report to SBA for review and comment. In written comments, reproduced in appendix IV, SBA stated that it agreed with the report's recommendation and plans to develop a comprehensive strategy for communicating with potential and actual disaster loan applicants, which will include information such as processing steps and corresponding time frames applicants might experience through different stages of the loan process. SBA also stated that it is moving operation of the EIDL program related to COVID-19 from the Office of Disaster Assistance to the Office of Capital Access in order to better serve small businesses.

SBA also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to appropriate congressional committees, the SBA Administrator, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact William B. Shear at (202) 512-8678 or ShearW@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are listed in appendix V.

William B. Shear

William B. Shear
Director, Financial Markets and Community Investment

List of Addressees

The Honorable Patrick Leahy
Chairman
The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Patty Murray
Chair
The Honorable Richard Burr
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Committee on Health, Education, Labor, and Pensions
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The Honorable Gary C. Peters
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The Honorable Rob Portman
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The Honorable Richard Neal
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The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

The Honorable Elizabeth Warren
United States Senate

The Honorable Ayanna Pressley
House of Representatives

Appendix I: Objectives, Scope, and Methodology

For this report, we examined (1) challenges the Small Business Administration (SBA) and Economic Injury Disaster Loan (EIDL) program applicants experienced as part of SBA's implementation of the EIDL program in response to Coronavirus Disease 2019 (COVID-19) and the extent to which SBA has addressed these challenges; (2) the EIDL program's effects on its participants, including the effects of loan limits SBA put in place; (3) steps SBA has taken to address risks of fraud and provision of funds to ineligible applicants; and (4) the characteristics of program applicants and recipients. The EIDL loan program existed prior to the pandemic, but Congress has made legislative changes to modify the program in response to COVID-19, including the addition of EIDL advances. This report focuses on SBA's implementation of EIDL since the start of the pandemic.

To address the first objective, we reviewed relevant legislation and SBA's guidance, policies and procedures, training documents, contracts with vendors, and other material for the EIDL program in response to COVID-19. We also interviewed officials from SBA's Office of Disaster Assistance about the implementation of the program. In addition, we interviewed representatives from a nongeneralizable sample of six state or regional Small Business Development Centers (SBDC) located in California, Illinois, Georgia, New York, Oklahoma, and Puerto Rico about their clients' experiences with the EIDL program. We selected these SBDCs because each of them met at least two of our several criteria: (1) the state or region in which it is located experienced a large negative impact from the pandemic based on the Census Bureau's Small Business Pulse Survey; (2) it had a high share of small businesses receiving EIDL funding based on the same survey; (3) a large difference existed between the percentage of applicants that requested versus received EIDL funding based on the survey; and (4) it had a high share of minority-owned businesses.[1] We also selected SBDCs that are located in different geographic regions of the country. We also interviewed America's SBDCs, an industry association representing SBDCs.

We also interviewed representatives of two business associations representing small businesses nationally (the National Federation of Independent Businesses and National Small Business Association) and four business associations representing industries in specific sectors

[1]The Small Business Pulse Survey measures the effect of changing business conditions during the pandemic on small businesses, including whether small businesses requested or received EIDL funding. The survey asked small businesses the magnitude of the effect—positive or negative—of the pandemic.

(Americans for Arts, American Hotel and Lodging Association, National Association of Realtors, and the National Retail Federation). We identified these associations through internet searches. We selected the industry-specific associations because the industries they represent experienced a larger-than-average negative effect from the pandemic, according to the Census Bureau Small Business Survey, and had large numbers of EIDL borrowers (based on our review of SBA loan data).

Collectively, we refer to representatives from SBDCs and associations we interviewed as stakeholders. We used “few,” “some,” “a majority,” and “almost all” to characterize stakeholder responses. We define “few” as 1–3 responses, “several” as 4–6 responses, “a majority” as 7–10 responses, and “almost all” as 11–13 responses. We conducted these interviews between August 2020 and February 2021.

We also conducted five discussion groups with EIDL program applicants and asked them about their experience with the program. Two groups consisted of applicants whose loans were declined, and three groups consisted of applicants whose loans were approved. Each group consisted of four to six participants, and we spoke with 22 EIDL applicants in total. We recruited these participants through the National Small Business Association, which emailed its members on our behalf. Those association members interested in participating responded using a web form. We conducted the discussion groups in January 2021. Discussions were guided by a GAO moderator who used a standardized list of questions to encourage participants to share their thoughts about and experiences with the EIDL program.

We spoke to these participants using a video conferencing tool. Each group discussion was digitally recorded and transcribed by an outside vendor, and we used the transcripts to summarize participants’ responses. An initial coder provided an explanation of the types of statements that should be assigned to a particular code and assigned a code that best summarized the statements from discussion group participants. A separate individual reviewed and verified the accuracy of the initial coding. The initial coder and reviewer discussed orally and in writing any disagreements about code assignments and documented consensus on the final results. Discussion groups are intended to generate in-depth information about the reasons for participants’ views on specific topics. While we report our findings by the number of discussion groups in which a topic was discussed, this does not necessarily mean that there was a consensus or agreement among all discussion group participants on a given topic. The opinions expressed by the participants represent their points of view and may not represent the views of all EIDL applicants.

To identify trends in processing EIDL loans and advances, such as processing times and volume, we reviewed SBA's weekly summary processing reports for loans and advances. For loans, we reviewed reports dating from March 15, 2020, through February 27, 2021. For advances, we reviewed reports dating March 29, 2020, through July 15, 2020. We interviewed SBA officials in order to assess the reliability of the data contained within those reports and determined that they were reliable for the purpose of reporting on SBA's loan processing volumes and times.

To further analyze trends in processing times, we obtained and analyzed SBA data for individual EIDL loan applications. These data were derived from about 12.5 million applications submitted to SBA between March 14, 2020, and February 28, 2021. To assess the reliability of these data, we conducted electronic testing for missing data, outliers, and obvious errors, and we interviewed SBA officials. We determined that the data were sufficiently reliable for the purpose of describing application volumes and processing times. Within the application data, each application was assigned a processing status depending on the processing stage the application was in at the time data were produced. Based on information from SBA, we categorized applications with statuses listed as "funded," "funding," "obligated," and "obligating" as applications that had been "approved."[2]

To analyze average processing times by the month that applicants submitted their applications, we analyzed the applications that were "funded" or declined. We used "funded" rather than the entirety of the "approved" category to provide a consistent measurement for the processing time. Using these data, we approximated the processing time from the time applicants submitted their applications to the time SBA funded or declined their applications.

To identify trends in customer service calls received, we analyzed SBA's weekly data for its Customer Service Center from the week of March 15,

[2]Applications in these stages have been approved by SBA. Specifically, "obligating" indicates that SBA has made a final approval for the application; "obligated" means that the borrower may sign the closing documents; "funding" means that borrowers have signed closing documents; and "funded" means the funds have been disbursed to the borrower.

2020, through the week of February 14, 2021. The calls from this period were primarily related to COVID-19. SBA distinguishes COVID-19 calls from non-COVID-19 calls using certain coding, but COVID-19-related calls are not always coded as such, according to SBA. To identify trends in staffing, we analyzed SBA's weekly staffing data from March 20, 2020, through February 12, 2021. To assess the reliability of SBA's call center and staffing data, we interviewed SBA officials. We determined that these data were sufficiently reliable for the purpose of identifying trends in customer service calls and staffing levels.

To address the second objective, we reviewed information from SBA about when it implemented the loan limits, and we interviewed officials from SBA's Office of Disaster Assistance about the loan limits put in place. Additionally, we obtained information from SBA about the number of borrowers affected by SBA's loan limits. We asked discussion group participants and representatives of SBDCs and business associations identified above about the effects of the program and loan limits.

To address the third objective, we reviewed prior GAO reports and reports from SBA's Office of Inspector General and independent financial statement auditor.[3] We interviewed SBA officials from the Office of Disaster Assistance and SBA's contractor about controls in place to ensure eligibility and to address fraud risk. We also obtained written responses to questions we submitted to SBA's contractor and two subcontractors regarding services they provided in implementing EIDL and their interactions with SBA, among other things. Additionally, we reviewed documentation on SBA's policies, procedures, and training related to reviewing EIDL applications. We also reviewed documents related to EIDL program eligibility criteria and modifications made to the contractors' validation system.

To characterize fraud cases and schemes used to obtain EIDL funds, we analyzed 51 fraud-related cases based on information provided in

[3]See GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year,* GAO-21-387 (Washington, D.C.: Mar. 31, 2021) and *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021); Small Business Administration, Office of Inspector General*, SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program* (Washington, D.C.: May 6, 2021) and *Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic* (Washington, D.C.: Oct. 28, 2020); and Small Business Administration, Office of Performance Management and the Chief Financial Officer*, Agency Financial Report, Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020).

Department of Justice (DOJ) and federal court documents from May 2020 to March 2021. We identified the 51 cases included in our analysis by subscribing to alerts from a legal news subscription site, using the key phrase “Economic Injury Disaster Loan.” For identified cases, we used an electronic public access service for U.S. federal court documents to access and download documents used in the court process, such as indictments, criminal information, and plea agreements. We conducted a thematic analysis of case information, using a federal fraud ontology currently under development at GAO as a schema. This thematic analysis was structured and organized using WebProtégé, an ontology modeling tool developed by the Stanford Center for Biomedical Informatics Research at the Stanford University School of Medicine. We then analyzed the aggregate data to describe the characteristics of EIDL-related DOJ cases. To identify illustrative cases of potential fraud and abuse involving EIDL funds, we selected from a list of cases that had reached conclusion through guilty plea. We selected cases to achieve variation across the following criteria: whether the cases involved (1) eligibility misrepresentation, (2) fraud schemes identified by law enforcement, and (3) fraud related to COVID-19 or other crimes.

To address our fourth objective, we (1) analyzed SBA data on EIDL loan applicants to determine applicants’ demographic and other characteristics; (2) combined these applicant data with Census Bureau and U.S. Department of Agriculture (USDA) data at the county level to examine the socioeconomic, demographic, and geographic characteristics of the counties in which applicants and borrowers were located; and (3) combined SBA’s EIDL applicant data with Census Bureau data at the tabulated ZIP code level to examine the socioeconomic and demographic characteristics of tabulated ZIP code areas in which applicants and borrowers were located for four metropolitan statistical areas (MSA).[4]

We analyzed the characteristics of EIDL applicants using SBA’s data on EIDL applications from March 14, 2020, through February 28, 2021,

[4]The Census Bureau defines metropolitan statistical areas as having at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. ZIP code tabulation areas are generalized areal representations of U.S. Postal Service ZIP code service areas, which are not areal features but a collection of mail delivery routes.

discussed above. The data covered about 12.5 million applications.[5] We analyzed the number of applicants, the loan approval rate, and the loan amount by the size of a business (as measured by the number of employees reported by applicants), the age of the business, and the business industry reported by the applicant.[6] Although we determined that these data were reliable for our use in describing trends in applicant and loan recipient characteristics, SBA collected this information from applicants who self-certified the accuracy of the information provided. Therefore, the reliability of the data is dependent on the accuracy of the information provided by the applicants.

We combined SBA's EIDL applicant data with socioeconomic, demographic, and geographic data at the county level to examine characteristics of the counties in which applicants and borrowers were located.[7] We used data from the Census Bureau's 2015–2019 American Community Survey to define and compute socioeconomic and demographic characteristics. Specifically, for socioeconomic characteristics, we examined median household income, unemployment rate, poverty rate, percentage of households receiving public assistance income, and percentage of households without internet access. For demographic characteristics, we examined the percentage of non-White residents, the percentage of foreign-born residents, and the percentage of households with limited English proficiency. For geographic characteristics, we used 2017 data from USDA's Economic Research

[5]The data consisted of about 3.7 million approved applications, 6 million declined applications, 2.6 million withdrawn applications, and 123,000 other applications, such as applications SBA is currently processing.

[6]The SBA data included data on business activity, number of employees, the date the business was established, whether the loan was approved, and the loan amount. We created additional variables to facilitate our analysis of the data. Specifically, we created the variable for the age of business by calculating the length of time between the date that applicants reported they established their business and January 31, 2020. We chose to use January 31, 2020, because applicants were generally eligible for EIDL in response to COVID-19 if they established businesses on or before this date. For industry, SBA's data generally consisted of business activities that applicants could select from a list on the application. However, some business activities did not align with those that appear on the application. Where possible, we grouped business activities that did not align with those that appear on the application.

[7]For the purposes of this analysis, we defined "community" as a U.S. county and a small business as a business with fewer than 500 employees.

Service to classify counties as rural or urban.[8] Additionally, we used data from the Census Bureau to identify tribal lands.[9]

In our analysis, we examined the relationship between EIDL program outcomes and county-level socioeconomic, demographic, and geographic characteristics. Specifically, we analyzed the total number of EIDL applications, the total number of approved EIDL applications, and the total number of declined EIDL applications. We also analyzed the loan approval rate and the total and average loan amounts for approved applicants.[10] Additionally, we used data from two Census Bureau reports—the Statistics of U.S. Businesses and Nonemployer Statistics—to determine the number of small business establishments by county and the number of small business employees by county. We used these data to compute the number of approved EIDL loans per small business and the loan amount approved on a per-employee basis.[11] We reviewed documentation related to the data from the Census Bureau and USDA and determined that the data were sufficiently reliable for our use in describing the characteristics of the communities in which EIDL applicants and loan recipients were located.

We combined SBA's EIDL applicant data with Census Bureau data at the ZIP code tabulation area (ZCTA) level to examine the socioeconomic and demographic characteristics discussed above for ZCTAs within which applicants and borrowers were located for four MSAs. For each MSA, we

[8]USDA's Economic Research Service designates each U.S. county as metro or nonmetro. Metro areas include all counties containing one or more urbanized areas: high-density urban areas containing 50,000 people or more. Metro areas also include outlying counties that are economically tied to the central counties, as measured by the share of workers commuting on a daily basis to the central counties. Nonmetro counties are outside the boundaries of metro areas and have no cities with 50,000 residents or more. For the purposes of this report, rural counties are "nonmetro" counties and urban counties are "metro" counties designated by USDA in 2017.

[9]We used data from the Census Bureau to define tribal areas, which consist of American Indian, Alaska Native, and Native Hawaiian areas. These areas contain both legal and statistical American Indian, Alaska Native, and Native Hawaiian entities for which the Census Bureau publishes data. The legal entities consist of federally recognized American Indian reservations and off-reservation trust land areas, state-recognized American Indian reservations, and Hawaiian home lands. American Indian tribal subdivisions and Alaska Native Regional Corporations are additional types of legal entities.

[10]We calculated the loan approval rate using the data for approved and declined applicants.

[11]We calculated loans per small business by adjusting for the number of approved, nonagricultural EIDL loans in a particular county by the total number of small businesses in a county to facilitate comparison across geographic areas.

compared the socioeconomic and demographic characteristics of the ZCTAs to the national estimates. To select MSAs for analysis, we established population densities for each MSA and grouped the MSAs into four size categories: mega, large, medium, and small. From these, we judgmentally selected four MSAs for further analysis at the ZCTA level using information about (1) population; (2) percentage of businesses that requested assistance based on Census Bureau data (a proxy of level of need for the EIDL program); (3) the difference between the percentage of businesses that requested assistance versus those that received assistance based on Census Bureau data; and (4) distribution across the Census Bureau’s four geographic regions. We conducted analysis for New York-Newark-Jersey City (mega), Chicago-Elgin-Naperville (large), San Jose-Sunnyvale-Santa Clara (medium), and New Orleans-Metairie (small).

Aggregate business statistics from the Census Bureau are unavailable at the ZCTA level. Therefore, we are unable to scale EIDL lending outcomes by the number of EIDL loans per 1,000 small businesses and the loan amount approved on a per-employee basis. We therefore limited our analysis to loan approval rate for ZCTAs. Additionally, we excluded the percentage of foreign-born residents from our analysis because no estimate for the ZCTAs is above the national average.

To provide context for our observations from the data analysis, we conducted a narrow, limited search for reports and studies related to certain socioeconomic and demographic variables (median household income, household internet access, demographic trends, and urban or rural location). We focused on reports and studies that contained information about interactions among those variables, the EIDL application process, and COVID-19. We identified these reports and studies using a Google search. We restricted our search to scholarly and government material published within the last 5 years.

We conducted this performance audit from July 2020 to July 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Socioeconomic and Demographic Characteristics of EIDL Applicants and Recipients

This appendix contains information on Economic Injury Disaster Loan (EIDL) program lending outcomes by unemployment rate, share of households receiving public assistance income, poverty rate, foreign-born population, and share of households with limited English proficiency.

EIDL Applicant and Recipient Outcomes by County Unemployment Rate

Businesses in counties with unemployment rates below or equal to the national unemployment rate received fewer loans on average and a smaller overall share of all EIDL dollars (see table 9).[1] However, the average loan size was larger as compared with loans received by businesses in counties with unemployment rates above the national rate.

Table 9: Economic Injury Disaster Loan (EIDL) Applications, Loan Size, and Share of Total Loan Dollars, by County Unemployment Rate

Variable	Counties above national unemployment rate	Counties below or equal to national unemployment rate	All U.S. counties
Average number of EIDL applications	3,954	2,150	2,927
Average number of declined EIDL applications	2,524	1,222	1,782
Average number of approved EIDL applications	1,431	928	1,144
Average loan size (in dollars)	50,710	56,721	53,487
Percentage of all approved EIDL loan dollars	51.0	49.0	100

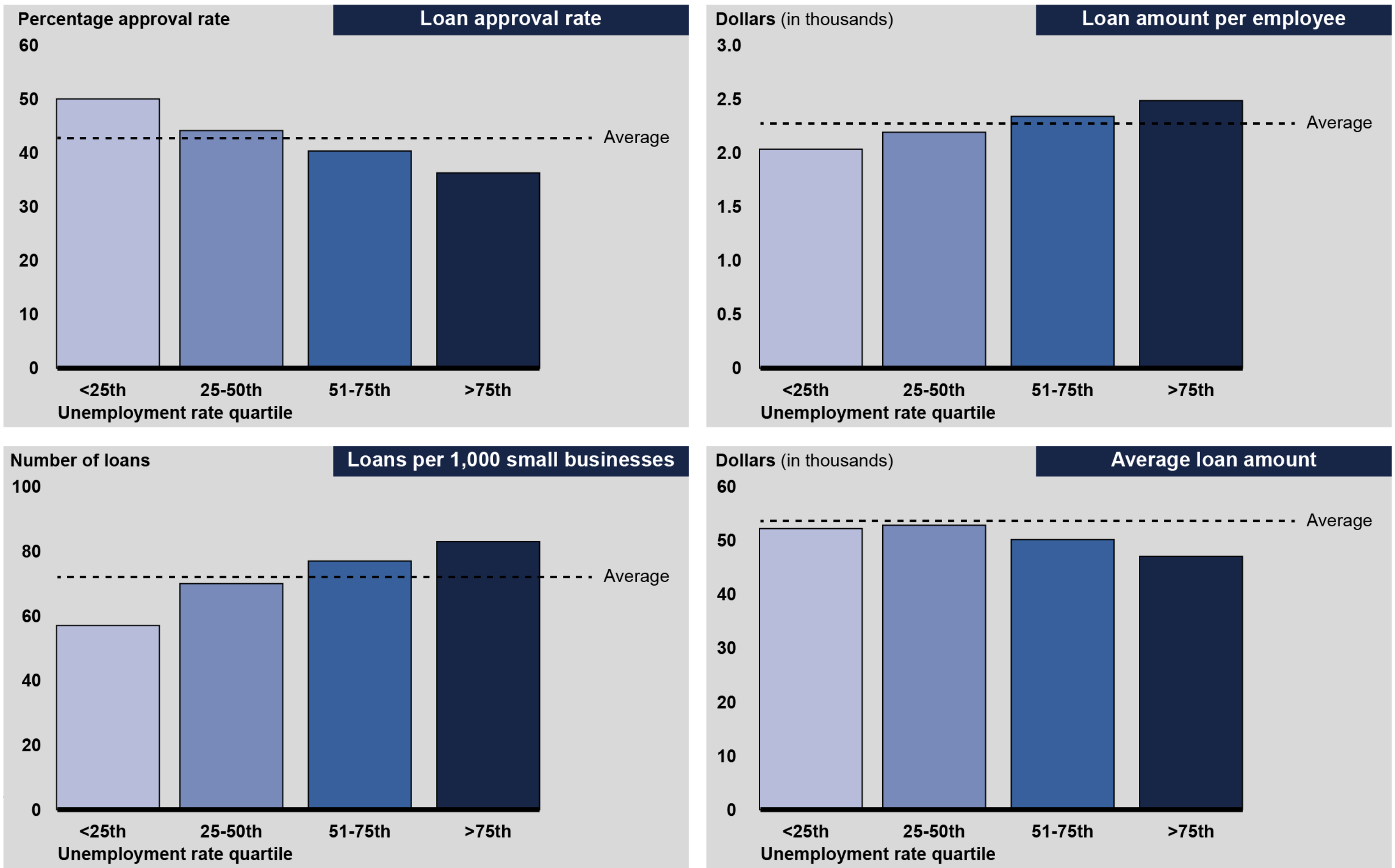
Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: The total number of counties or similar entities that can be matched to EIDL loan data is 3,139. According to the Census Bureau, 1,351 counties had rates of unemployment above the national rate, and 1,788 counties had rates below the national rate.

Figure 17 illustrates EIDL lending outcomes associated with county unemployment rate, by quartile. Counties falling into the lower unemployment quartiles had higher loan approval rates and larger average loan sizes than other counties, although they also had fewer loans per 1,000 small businesses and smaller loans on a per-employee basis.

[1]The national 5-year estimate of unemployment rate was 5.3 percent, according to our analysis of data from the 2015–2019 American Community Survey.

Figure 17: Economic Injury Disaster Loan Program Lending Outcomes by County Unemployment Rate



Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: We ordered the unemployment rates for all counties from the lowest to the highest value. We then divided the ordered distribution of counties into four equally sized groups (quartiles). The counties with the lowest rates fall within the “<25th” quartile while those with the highest rates fall within the “>75th” quartile. We calculated the average for each lending outcome by quartile.

EIDL Applicant and Recipient Outcomes by County Share of Households Receiving Public Assistance Income

Businesses in counties with shares of residents receiving public assistance income at a level below or equal to the national estimated share received fewer EIDL loans on average, but they received a larger overall share of loan dollars (see table 10).[2] The average dollar amount of these loans was slightly smaller than that of loans received by businesses in counties with larger shares of the population receiving public assistance income.

Table 10: Economic Injury Disaster Loan (EIDL) Applications, Loan Size, and Share of Total Loan Dollars, by County Share of Households Receiving Public Assistance Income

Variable	Counties above national rate	Counties below or equal to national rate	All U.S. counties
Average number of EIDL applications	3,533	2,620	2,927
Average number of declined EIDL applications	2,144	1,600	1,782
Average number of approved EIDL applications	1,389	1,020	1,144
Average loan size (in dollars)	53,785	53,281	53,487
Percentage of all approved EIDL loan dollars	41.0	59.0	100

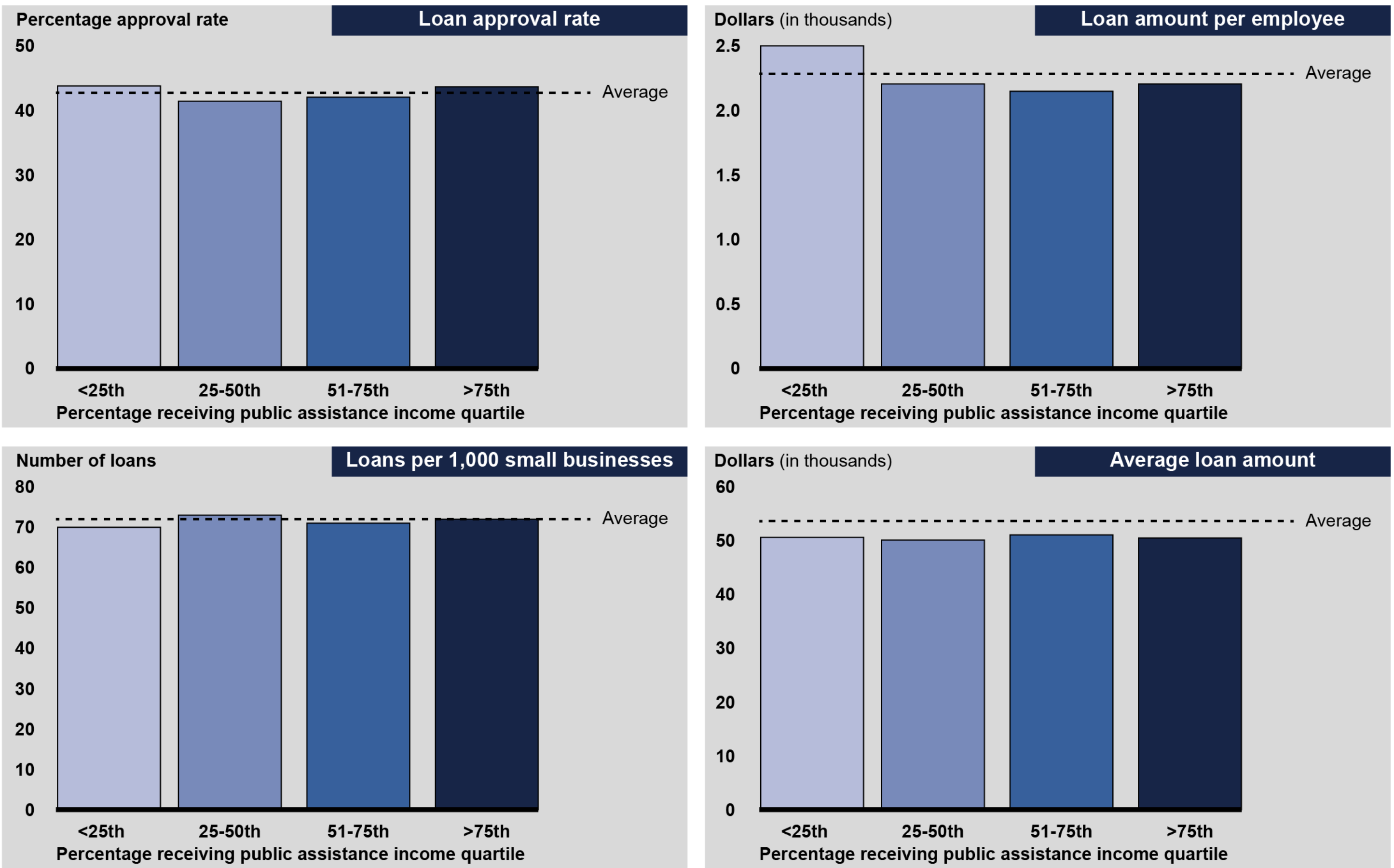
Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: The total number of counties or similar entities that can be matched to EIDL loan data is 3,139. According to the Census Bureau, 1,055 counties had shares of residents receiving public assistance income above the national rate, and 2,084 counties had rates below the national rate.

Figure 18 illustrates EIDL lending outcomes associated with county share of households receiving public assistance income, by quartile. All measures were generally comparable across quartiles.

[2]The national 5-year estimate of the share of households receiving public assistance income was 2.4 percent, according to our analysis of data from the 2015–2019 American Community Survey.

Figure 18: Economic Injury Disaster Loan Program Lending Outcomes by County Share of Households Receiving Public Assistance Income



Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: We ordered the shares of households receiving public assistance income for all counties from the lowest to the highest value. We then divided the ordered distribution of counties into four equally sized groups (quartiles). The counties with the lowest share fall within the “<25th” quartile while those with the highest share fall within the “>75th” quartile. We calculated the average for each lending outcome by quartile.

EIDL Applicant and Recipient Outcomes by County Poverty Rate

Businesses in counties with poverty rates below or equal to the national rate received more and larger loans on average, as well as a larger share of all EIDL dollars (see table 11).[3]

Table 11: Economic Injury Disaster Loan (EIDL) Applications, Loan Size, and Share of Total Loan Dollars, by County Poverty Rate

Variable	Counties above national rate	Counties below or equal to national rate	All U.S. counties
Average number of EIDL applications	2,799	3,095	2,927
Average number of declined EIDL applications	1,806	1,752	1,782
Average number of approved EIDL applications	994	1,343	1,144
Average loan size (in dollars)	51,305	55,623	53,487
Percentage of all approved EIDL loan dollars	47.5	52.5	100

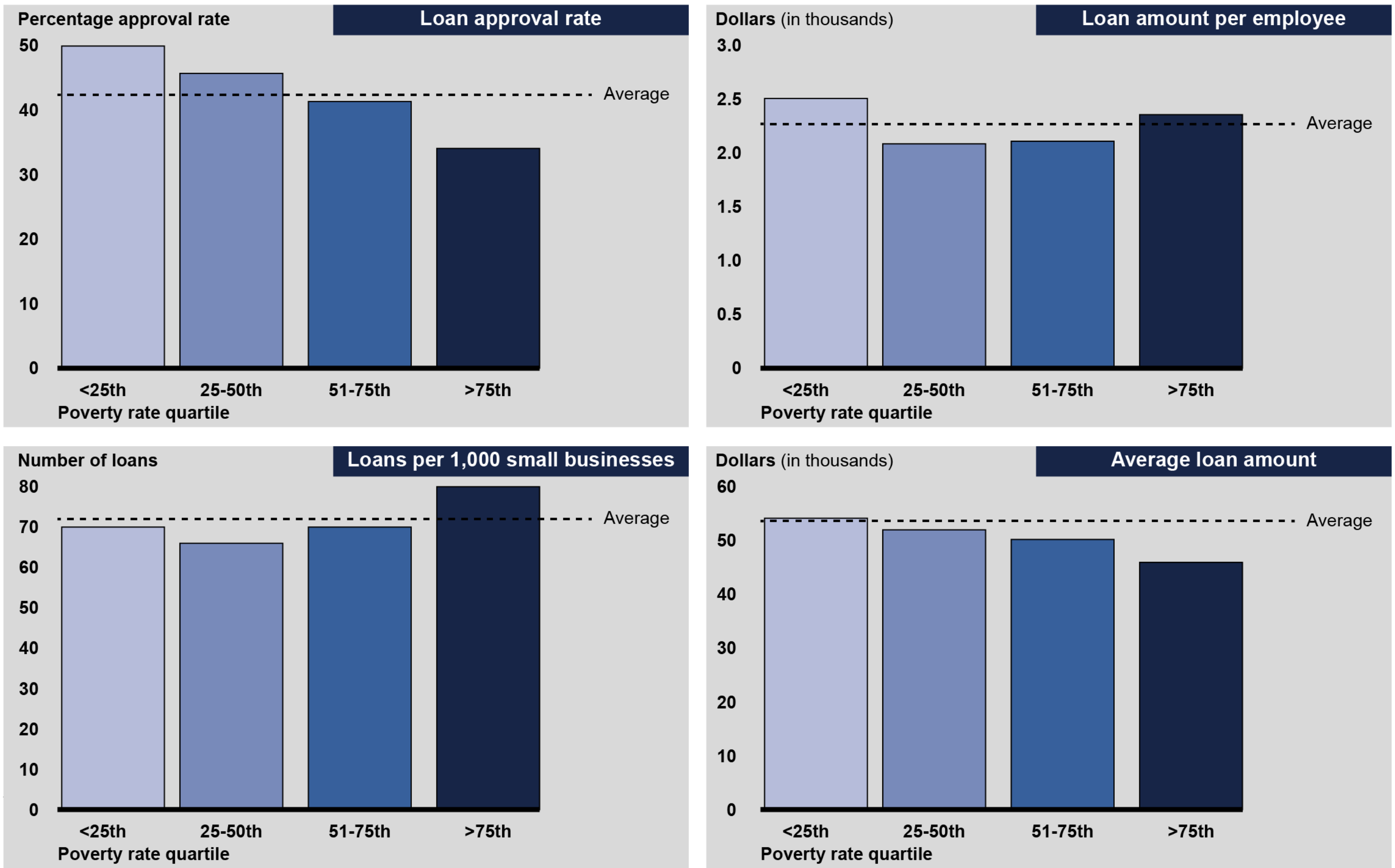
Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: The total number of counties or similar entities that can be matched to EIDL loan data is 3,139. According to the Census Bureau, 1,788 counties had poverty rates above the national rate, and 1,351 counties had rates below the national rate.

Figure 19 illustrates EIDL lending outcomes associated with county poverty rate, by quartile. Businesses in the lowest quartile of counties in terms of poverty rate generally had higher loan approval rates, loan amounts on a per-employee basis, and average loan sizes. In contrast, counties in the highest quartile in terms of poverty rate had somewhat more loans per 1,000 businesses.

[3]The national 5-year estimate of poverty rate was 12.9 percent, according to our analysis of data from the 2015–2019 American Community Survey.

Figure 19: Economic Injury Disaster Loan Program Lending Outcomes by County Poverty Rate



Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: We ordered the poverty rates for all counties from the lowest to the highest value. We then divided the ordered distribution of counties into four equally sized groups (quartiles). The counties with the lowest poverty rates fall within the “<25th” quartile while those with the highest rates fall within the “>75th” quartile. We calculated the average for each lending outcome by quartile.

EIDL Applicant and Recipient Outcomes by County Foreign-Born Population

Businesses in counties with foreign-born populations above the national estimated share of the population received more and larger loans on average, as well as a larger share of all EIDL dollars (see table 12).[4]

Table 12: Economic Injury Disaster Loan (EIDL) Applications, Loan Size, and Share of Total Loan Dollars, by County Foreign-Born Population

Variable	Counties above national rate	Counties below or equal to national rate	All U.S. counties
Average number of EIDL applications	23,088	1,482	2,927
Average number of declined EIDL applications	13,624	933	1,782
Average number of approved EIDL applications	9,464	548	1,144
Average loan size (in dollars)	55,112	51,473	53,487
Percentage of all approved EIDL loan dollars	57.0	43.0	100

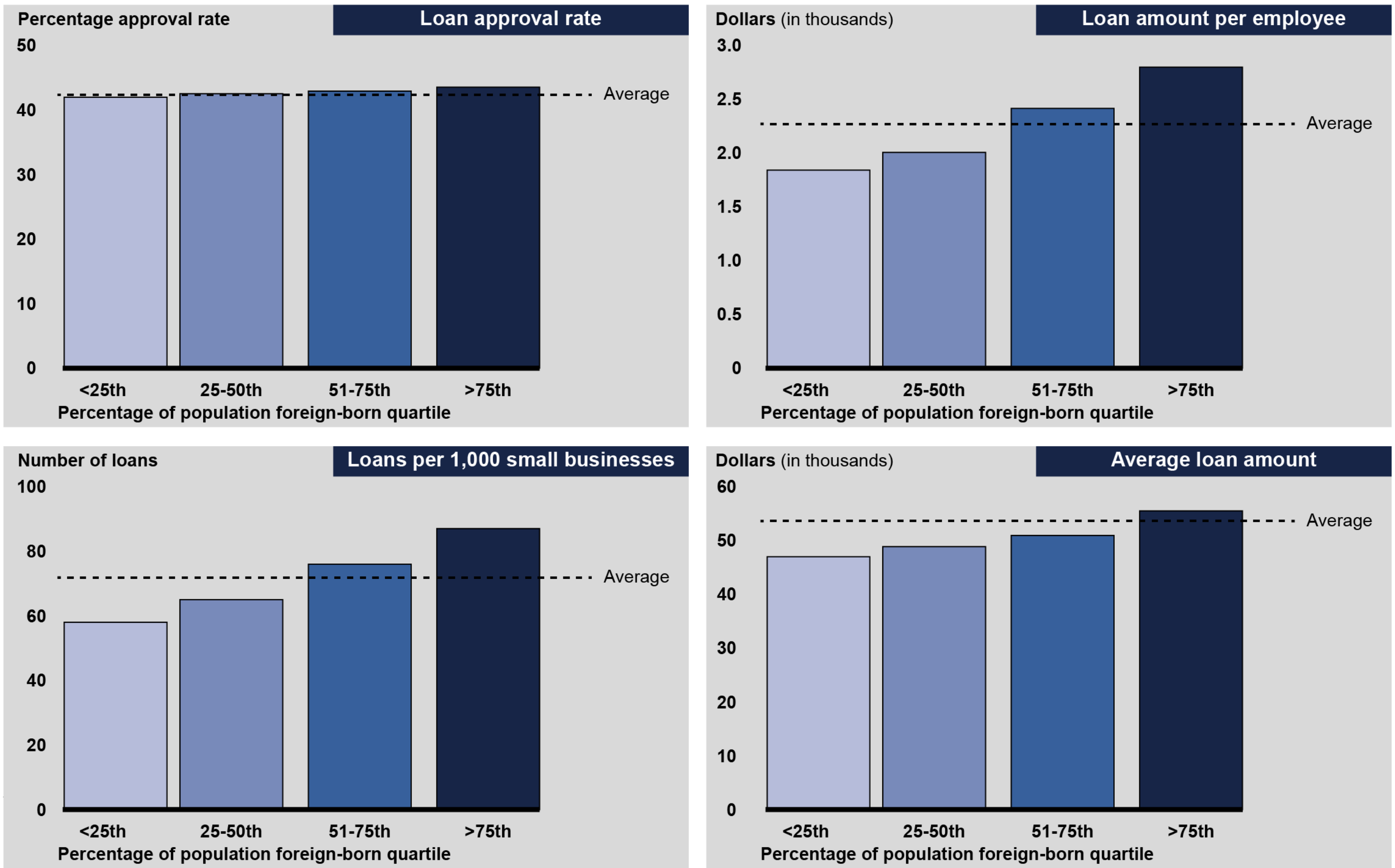
Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: The total number of counties or similar entities that can be matched to EIDL loan data is 3,139. According to the Census Bureau, 210 counties had percentages of foreign-born residents above the national rate, and 2,929 counties had rates below the national rate.

Figure 20 illustrates EIDL lending outcomes associated with foreign-born population, by quartile. Businesses in the highest quartile of counties in terms of poverty rate had higher loan approval rates, loan amounts on a per-employee basis, and average loan sizes. Counties with more foreign-born residents also received more loans per 1,000 small businesses.

[4]The national 5-year estimate of the share of the population born outside of the United States was 13.6 percent, according to our analysis of data from the 2015–2019 American Community Survey.

Figure 20: Economic Injury Disaster Loan Program Lending Outcomes by Foreign-Born Population Percentage



Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: We ordered the percentage of foreign-born population for all counties from the lowest to the highest value. We then divided the ordered distribution of counties into four equally sized groups (quartiles). The counties with the lowest percentages fall within the "<25th" quartile while those with the highest percentages fall within the ">75th" quartile. We calculated the average for each lending outcome by quartile.

EIDL Applicant and Recipient Outcomes by Share of Households with Limited English Proficiency

Businesses in counties with shares of households with limited English proficiency above the national estimate of 4.4 percent received more and larger loans on average, as well as a larger share of all EIDL dollars (see table 13).

Table 13: Economic Injury Disaster Loan (EIDL) Applications, Loan Size, and Share of Total Loan Dollars, by County Households with Limited English Proficiency

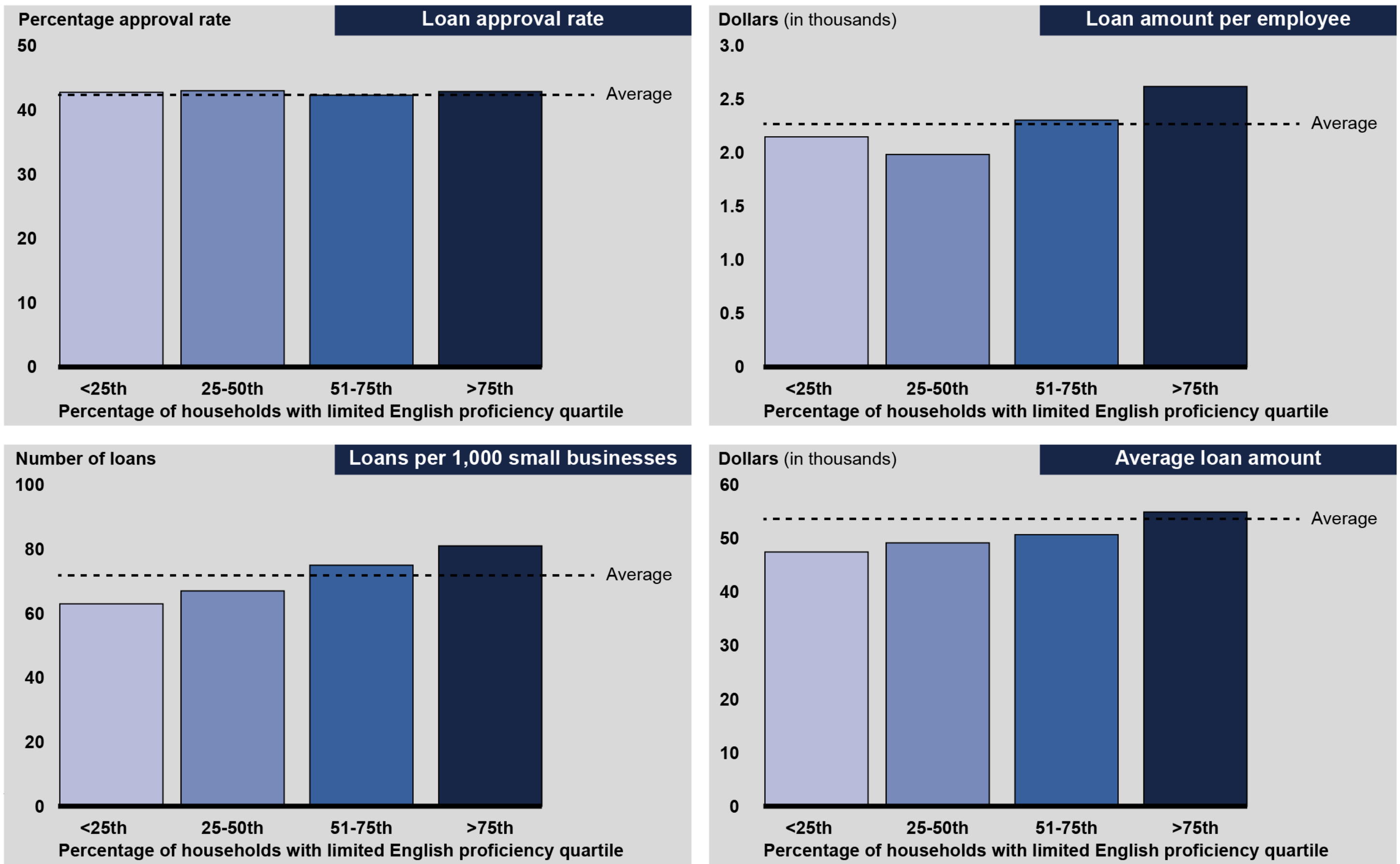
Variable	Counties above national rate	Counties below or equal to national rate	All U.S. counties
Average number of EIDL applications	14,465	1,617	2,927
Average number of declined EIDL applications	8,610	1,007	1,782
Average number of approved EIDL applications	5,856	609	1,144
Average loan size (in dollars)	54,686	52,178	53,487
Percentage of all approved EIDL loan dollars	53.3	46.7	100

Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: The total number of counties or similar entities that can be matched to EIDL loan data is 3,139. According to the Census Bureau, 320 counties had percentages of households with limited English proficiency above the national rate, and 2,819 counties had rates below the national rate.

Figure 21 illustrates EIDL lending outcomes associated with county share of households with limited English proficiency, by quartile. Businesses in the highest quartile of counties in terms of limited English proficiency had larger loan amounts on a per-employee basis and average loan sizes. These counties also received more loans per 1,000 small businesses. However, loan approval rates across quartiles were similar.

Figure 21: Economic Injury Disaster Loan Program Lending Outcomes by County Share of Households with Limited English Proficiency



Source: GAO analysis of Small Business Administration (SBA) and Census Bureau data. | GAO-21-589

Note: We ordered the shares of households with limited English proficiency for all counties from the lowest to the highest value. We then divided the ordered distribution of counties into four equally sized groups (quartiles). The counties with the lowest shares fall within the “<25th” quartile while those with the highest shares fall within the “>75th” quartile. We calculated the average for each lending outcome by quartile.

Appendix III: Analysis of EIDL Lending Outcomes for Selected Metropolitan Statistical Areas by ZIP Code

We analyzed Economic Impact Disaster Loan (EIDL) lending outcomes for ZIP code tabulation areas (ZCTA) within four selected metropolitan statistical areas (MSA): New York-Newark-Jersey City, Chicago-Naperville-Elgin, New Orleans-Metairie, and San Jose-Sunnyvale-Santa Clara.[1] Because of a lack of aggregate business statistics at the ZCTA level, we are unable to analyze the number of EIDL loans per 1,000 small businesses or the loan amount approved on a per-employee basis. We limited our analysis of ZCTAs to calculating and comparing differences in loan approval rates across various socioeconomic and demographic factors.

For each MSA, we examined EIDL loan approval rates for selected socioeconomic and demographic characteristics by ZCTA.[2] We identified these MSAs based on factors such as varied population densities, geographic regions, and the number of businesses in each MSA requesting assistance (see app. I for more information). Based on our analysis of loan approval rates at the ZCTA level, our findings from the MSA analysis are generally consistent with those from our county-level analysis. Thus, our results do not appear to be sensitive to the geographic unit used.[3]

New York-Newark-Jersey City MSA

The New York-Newark-Jersey City MSA spans 25 counties.[4] Between March 2020 and February 2021, the Small Business Administration (SBA) approved 361,881 EIDL loans with an average loan amount of $59,171 across 918 ZCTAs within the MSA. Our analysis of the demographic indicators showed that the approval rates were lower for ZCTAs with percentages of non-White population and number of households with

[1]The Census Bureau defines metropolitan statistical areas as having at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.

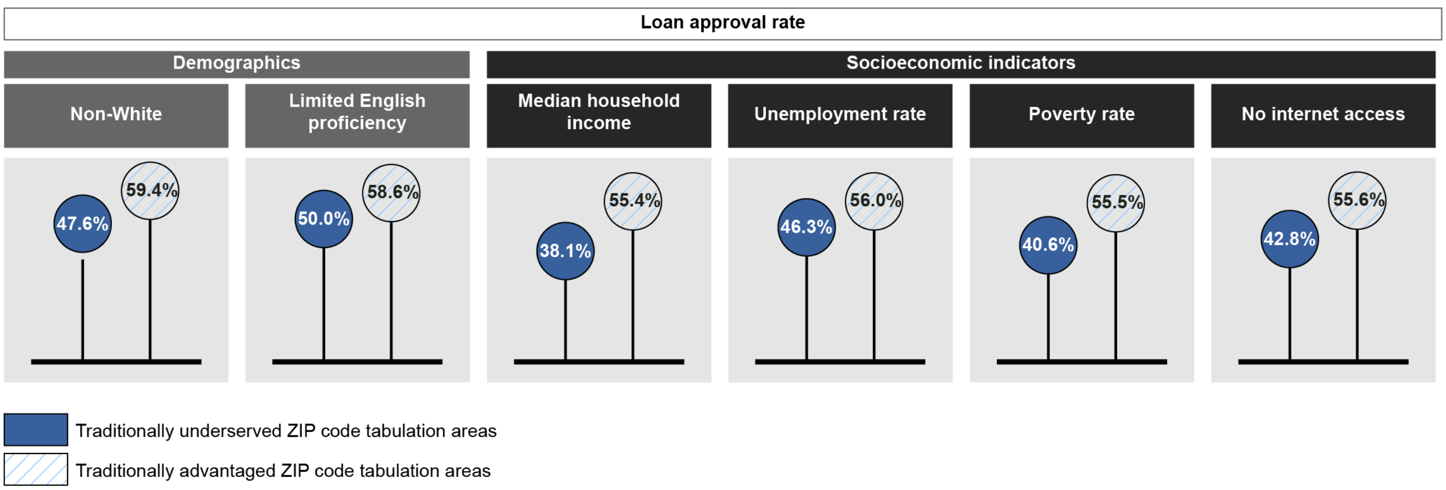
[2]ZIP code tabulation areas are generalized areal representations of U.S. Postal Service ZIP code service areas, which are not areal features but a collection of mail delivery routes.

[3]We excluded the indicator for “percentage of foreign-born residents” from the analysis for MSAs because there was no ZCTA above the 13.6 percent national estimate within the MSAs we analyzed.

[4]The counties in the New York-Newark-Jersey City MSA are Duchess County, NY; Putnam County, NY; Nassau County, NY; Suffolk County, NY; Essex County, NJ; Hunterdon County, NJ; Morris County, NJ; Somerset County, NJ; Sussex County, NJ; Union County, NJ; Pike County, PA; Bergen County, NJ; Hudson County, NJ; Middlesex County, NJ; Monmouth County, NJ; Ocean County, NJ; Passaic County, NJ; Bronx County, NY; Kings County, NY; New York County, NY; Orange County, NY; Queens County, NY; Richmond County, NY; Rockland County, NY; and Westchester County, NY.

limited English proficiency above the national estimate (see fig. 22). Our analysis of socioeconomic indicators showed that approval rates were higher for ZCTAs with median household income above the national estimate, and lower for ZCTAs with unemployment rate, poverty rate, and percentage of households with no internet access above the national estimate.

Figure 22: Approval Rates for Economic Injury Disaster Loans in the New York-Newark-Jersey City Metropolitan Statistical Area for Selected Indicators, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: Traditionally underserved ZIP code tabulation areas consist of areas where the following indicators are above the national estimate: percentage of non-White population, percentage of population with limited English proficiency, unemployment rate, poverty rate, and percentage of population with no internet access. Additionally, traditionally underserved ZIP code tabulation areas consist of areas where the median household income is below the national estimate. We use “traditionally underserved” and “traditionally advantaged” to facilitate understanding of the data.

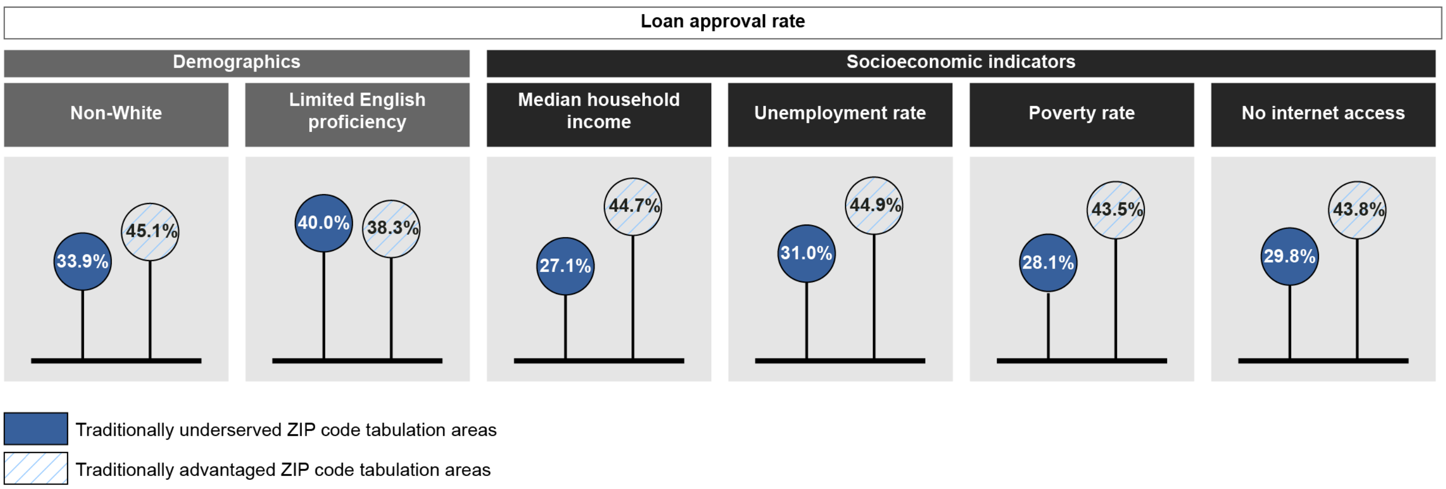
Chicago-Naperville-Elgin MSA

The Chicago-Naperville-Elgin MSA spans 14 counties.[5] Between March 2020 and February 2021, SBA approved 126,929 loans with an average loan amount of $50,236 across 413 ZCTAs within the MSA. Our analysis of the demographic indicators showed that the approval rates were lower for ZCTAs with percentages of non-White population above the national estimate (see fig. 23). Additionally, approval rates were similar for ZCTAs with numbers of households with limited English proficiency above and

[5]The counties in the Chicago-Naperville-Elgin MSA are Cook County, IL; DuPage County, IL; Grundy County, IL; Kendall County, IL; McHenry County, IL; Will County, IL; DeKalb County, IL; Kane County, IL; Jasper County, IN; Lake County, IN; Newton County, IN; Porter County, IN; Lake County, IL; and Kenosha County, WI.

below the national estimate. Our analysis of socioeconomic indicators showed that approval rates were higher for ZCTAs with a median household income above the national estimate, and lower for ZCTAs with unemployment rates, poverty rates, and percentages of households with no internet access above the national estimate.

Figure 23: Approval Rates for Economic Injury Disaster Loans in the Chicago-Naperville-Elgin Metropolitan Statistical Area for Selected Indicators, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: Traditionally underserved ZIP code tabulation areas consist of areas where the following indicators are above the national estimate: percentage of non-White population, percentage of population with limited English proficiency, unemployment rate, poverty rate, and percentage of population with no internet access. Additionally, traditionally underserved ZIP code tabulation areas consist of areas where the median household income is below the national estimate. We use "traditionally underserved" and "traditionally advantaged" to facilitate understanding of the data.

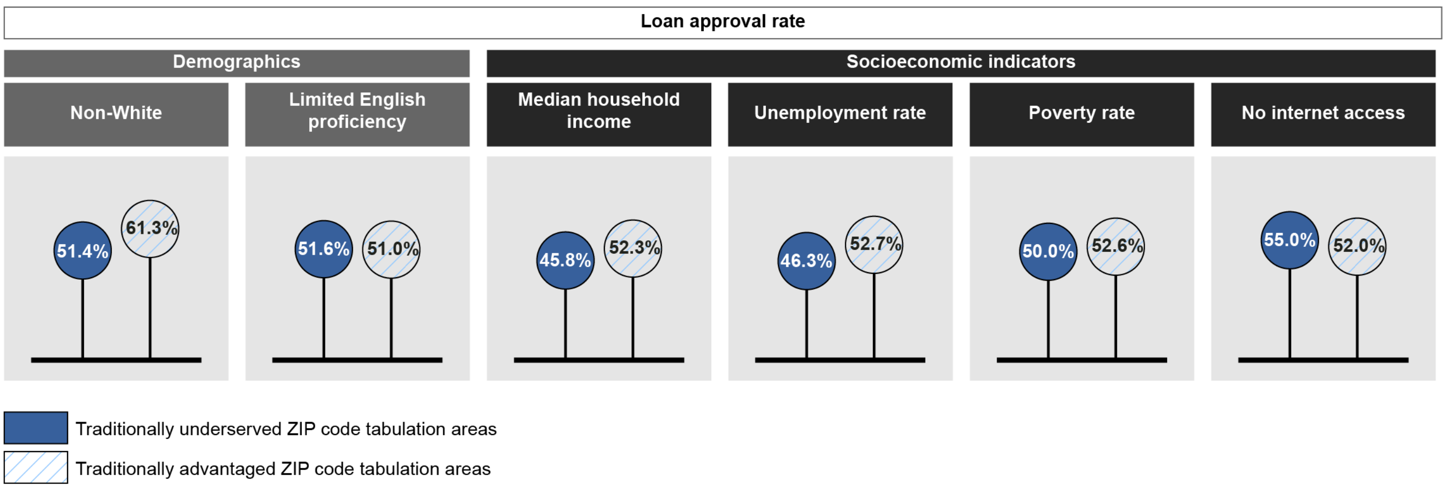
San Jose-Sunnyvale-Santa Clara MSA

The San Jose-Sunnyvale-Santa Clara MSA spans two counties.[6] Between March 2020 and February 2021, SBA approved 22,047 loans with an average amount of $67,264 across 69 ZCTAs within the MSA. Our analysis of the demographic indicators showed that the approval rates were lower for ZCTAs with percentages of non-White population above the national estimate (see fig. 24). Approval rates were similar for ZCTAs with numbers of limited English proficiency households above and below the national estimate. In addition, our analysis of socioeconomic indicators showed that approval rates were higher for ZCTAs with median

[6]The counties in the San Jose-Sunnyvale-Santa Clara MSA are San Benito County and Santa Clara County.

household income and levels of internet access above the national estimate, and lower for ZCTAs with unemployment rates and poverty rates above the national estimate.

Figure 24: Approval Rates for Economic Injury Disaster Loans in the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area for Selected Indicators, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: Traditionally underserved ZIP code tabulation areas consist of areas where the following indicators are above the national estimate: percentage of non-White population, percentage of population with limited English proficiency, unemployment rate, poverty rate, and percentage of population with no internet access. Additionally, traditionally underserved ZIP code tabulation areas consist of areas where the median household income is below the national estimate. We use “traditionally underserved” and “traditionally advantaged” to facilitate understanding of the data.

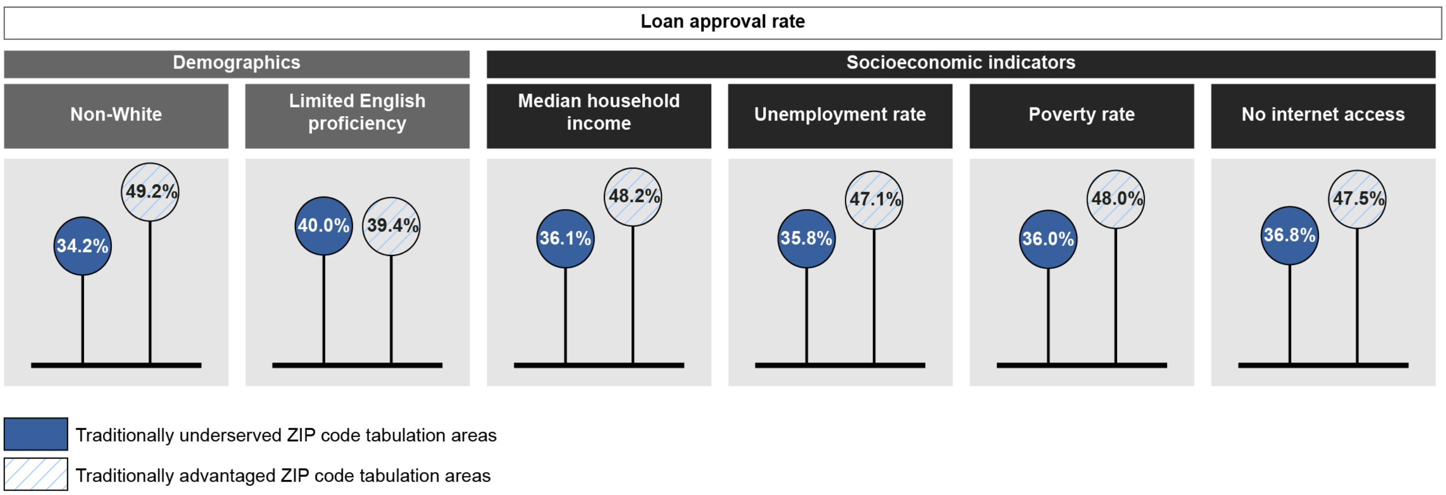
New Orleans-Metairie MSA

The New Orleans-Metairie MSA spans eight parishes.[7] Between March 2020 and February 2021, SBA approved 30,491 loans with an average amount of $45,917 across 80 ZCTAs within the MSA. Our analysis of the demographic indicators showed that the approval rates were lower for ZCTAs with percentages of non-White population above the national estimate (see fig. 25). Additionally, approval rates were similar for ZCTAs with numbers of households with limited-English proficiency above and below the national estimate. Our analysis of socioeconomic indicators showed that approval rates were higher for ZCTAs with median household income above the national estimate, and lower for ZCTAs with

[7]The parishes in the New Orleans-Metairie MSA are Jefferson Parish, LA; Orleans Parish, LA; Plaquemines Parish, LA; St. Bernard Parish, LA; St. Charles Parish, LA; St. James Parish, LA; St. John the Baptist Parish, LA; and St. Tammany Parish, LA.

unemployment rates, poverty rates, and percentages of households with no internet access above the national average.

Figure 25: Approval Rates for Economic Injury Disaster Loans in the New Orleans-Metairie Metropolitan Statistical Area for Selected Indicators, March 2020–February 2021



Source: GAO analysis of Small Business Administration and Census Bureau data. | GAO-21-589

Note: Traditionally underserved ZIP code tabulation areas consist of areas where the following indicators are above the national estimate: percentage of non-White population, percentage of population with limited English proficiency, unemployment rate, poverty rate, and percentage of population with no internet access. Additionally, traditionally underserved ZIP code tabulation areas consist of areas where the median household income is below the national estimate. We use "traditionally underserved" and "traditionally advantaged" to facilitate understanding of the data.

Appendix IV: Comments from the Small Business Administration

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

July 19, 2021

Mr. Bill Shear
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) Draft Report titled, "*Economic Injury Disaster Loans and Advances for COVID-19* (GAO-21-168)."

In the Draft Report, GAO builds upon the previous findings and recommendations from the January 2021 and March 2021 reports on Economic Injury Disaster Loans (EIDLs) and Advances for COVID-19. In response to those recommendations, SBA reported to GAO that the Agency is in the process of developing an analysis to apply certain fraud indicators to all application data. SBA is also working on an enterprise approach to implement a comprehensive oversight plan for COVID EIDLs and ensure that a fraud risk assessment is completed and that fraud risks are monitored on a continuous basis. The Agency has begun the process of assessing fraud risk for all of its CARES Act programs, including COVID EIDLs. By the end of fiscal year 2021, SBA will designate an entity to lead program integrity and fraud risk management activities across the agency.

The Draft Report notes that SBA moved quickly under very challenging circumstances to develop and launch the COVID EIDL program, which, as of July 14, 2021, has approved over 3.8 million loans for over $222.6 billion. Within three days of the CARES Act being enacted, SBA launched a new streamlined loan application platform that was quickly modified to handle requests for both loans and grants (EIDL Advances). In the first week after launch, SBA received nearly 3.4 million COVID EIDL applications.

As of July 14, 2021, SBA has received over 19.5 million COVID EIDL applications, of which more than 99.3% have had an initial loan processing decision. On average, SBA has processed the initial loan decision in 31 days. To put that in context, SBA's previous largest disaster event – Hurricanes Katrina, Rita and Wilma – resulted in 423,000 disaster loan applications, and the average processing time was 67 days. After more than a decade of continuous streamlining and process improvements and modernization, SBA's response times were much improved for the second largest disaster in Agency history – Hurricanes Harvey, Irma and Maria – which resulted in 344,000 disaster loan applications and had an average processing time of 16 days.

The pandemic presented a new set of challenges that SBA's disaster loan program was not initially designed to handle. Prior to COVID, SBA did not have the statutory authority to declare a pandemic disaster and had to receive special legislative authority in the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 to declare the COVID-19 disaster. After receiving the authority, SBA was able to proceed with approving individual requests from governors (or their counterparts) for disaster declarations in every US state, territory, and the District of Columbia to make EIDL assistance available to all eligible businesses. Because of the unique nature and scale of the COVID disaster, SBA needed to respond quickly to conform its processes and systems, including communications and oversight, to the level of lending required. SBA is currently working on an update to the Agency's Disaster Preparedness and Response Plan (DPRP) to incorporate planning for future national emergencies such as a pandemic.

In the Draft Report, GAO stated that SBA did not communicate with potential and actual applicants regarding key information – such as processing times, loan limits, and their loan status – in an effective, consistent, or timely manner. With regard to loan limits and application status, SBA believes we have made corrections to address these areas. During the initial phase of COVID EIDL program delivery a policy decision was made to withhold details about the program, including its policy to cap loans at 6 months of working capital up to a maximum of $150,000. On February 4, 2021, SBA added detailed information about the loan limits in the Frequently Asked Questions posted to SBA.gov. The Agency has increased the loan limits to 24 months of working capital up to a maximum of $500,000, and SBA has continued a practice of being open and transparent about the loan limit and the Agency's commitment to offer further increases up to the full statutory limit of $2 million for eligible businesses.

SBA has also made progress on making status updates readily available to business applicants for the COVID EIDL program. For example, status updates were not available in the system supporting the EIDL Advance program that ran from March to July 2020. In August 2020, following a system upgrade, applicants were granted access to a customer portal to view the EIDL Advance status and received direct status updates by email from SBA. In 2021, SBA incorporated numerous improvements to provide greater access to the application status when we launched the Targeted EIDL Advance and Supplemental Targeted Advance. Applicants now have access to a customer portal where they can log in and view the application status at their convenience. SBA sends a direct email to the applicant for all approval, decline and withdrawal actions and explains the reason for the decline or withdrawal and the reevaluation process. SBA also sends automated reminder email messages to the eligible applicants for the Targeted and Supplemental EIDL Advance programs believed to be in a low-income community to ensure they are aware of the availability of the grant funds. Additionally, SBA sends reminder emails if the applicant fails to electronically sign the IRS Form 4506T to authorize SBA to obtain tax data directly from the IRS. Finally, every SBA regional and district office now has staff that can look up COVID EIDL applications in the system which enables them to provide improved customer service to businesses.

While SBA has improved availability of status updates, it is still a challenge to provide COVID EIDL applicants with accurate estimates for loan and grant processing times, including initial processing decisions, reconsiderations/reevaluations, and loan increase requests. SBA is working on this issue and expects to be able to provide average current processing times soon.

In addition, SBA executive management has determined that it is in the best interest of the COVID EIDL programs to redirect the management of COVID operations from the Office of Disaster Assistance to the Office of Capital Access. This includes COVID EIDL loan origination and increases, Targeted EIDL Advance and Supplemental Targeted Advance relief categories. The goal of this transition is to help reduce processing backlogs, expand the impact of the programs by effectively delivering a product that meets the needs of small businesses, and bring a recalibration of customer focused principles to our processes.

The SBA is recalibrating its focus on four primary areas:

- Policy: make program modifications that are within SBA's authority to offer products that best meet our country's small business needs.
- Staffing and Operations: implement workforce solutions and business processes that allow us to best deliver on a customer-centric application-to-disbursement experience along with a robust fraud prevention control framework.
- Systems and Technical Assistance: improve our platform to decrease application review times via automated procedures and provide more transparency into the application process for customers.
- Outreach: redouble our focus on communications and stakeholder engagement to increase small business owners' awareness and utilization of COVID EIDL products to assist in their recovery, including industries particularly impacted by COVID-19 and disadvantaged communities.

The covered period for the COVID EIDL program sunsets on December 31, 2021; however, SBA is committed to providing improved communications to COVID EIDL applicants and borrowers regarding decision processing times for initial loan requests and increases, status changes, and delays. SBA is also committed to continuing the practice of increased transparency to the public on policy changes and process improvements for the COVID EIDL program.

GAO is proposing one recommendation for SBA:

Recommendation 1.

- The Associate Administrator of SBA's Office of Disaster Assistance should develop a comprehensive strategy for communicating with potential and actual program applicants in the event of a disaster. Such a strategy should provide guidelines for the types of information and timing of information to be provided to program participants throughout a disaster. The types of information to be addressed in the strategy could include processing steps and time frames applicants might experience through different stages of the loan process.

SBA agrees with this recommendation. The Office of Disaster Assistance will develop a comprehensive strategy for communicating with potential and actual disaster loan applicants. The strategy will provide guidelines for the type and timing of information to be provided to loan applicants following a natural disaster. The type of information to be addressed in the strategy will include processing steps, such as loss verification, credit decision, and closing and disbursement, and the corresponding time frames applicants might experience through different stages of the loan process. In addition, a comprehensive strategy for communicating with potential and actual COVID 19 EIDL program applicants will be developed. The strategy will provide guidelines for the types of information and timing of information to be provided to program participants throughout the recovery period. The types of information to be addressed in the strategy will include processing steps and the corresponding time frames applicants might experience through different stages of the loan and grant process.

We appreciate the opportunity to comment on this Draft Report and recommendations, and your taking our views into consideration.

Sincerely,

JAMES RIVERA Digitally signed by JAMES RIVERA Date: 2021.07.19 19:20:50 -04'00'

James Rivera
Associate Administrator
Office of Disaster Assistance
U.S. Small Business Administration

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or ShearW@gao.gov.

Staff Acknowledgments

In addition to the contact name above, Marshall Hamlett (Assistant Director), Weifei Zheng (Analyst in Charge), Vida Awumey, Irina Carnevale, Chelsea Carter, Marissa Esthimer, Jacob Fender, Daniel Flavin, Jill Lacey, Andrew Lobel, Ying Long, Marc Molino, Angela Pun, Jessica Sandler, and Jennifer Schwartz made significant contributions to this report.

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Washington, DC 20548

Strategic Planning and External Liaison

Stephen J. Sanford, Managing Director, spel@gao.gov, (202) 512-4707
U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548