

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Handling of Returned COVID-19 Economic Injury Disaster Loan Funds and De-obligations of Approved Loans



Management Advisory

Report 24-15

April 24, 2024



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Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.




**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

Date: April 24, 2024

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware 
Inspector General

Subject: SBA'S Handling of Returned COVID-19 Economic Injury Disaster Loan Funds and De-obligations of Approved Loans (Report 24-15)

This report presents the results of our review of SBA'S Handling of Returned COVID-19 Economic Injury Disaster Loan Funds and De-obligations of Approved Loans. We considered management comments on the draft of this report when preparing the final report. SBA management partially agreed with the one recommendation and submitted supporting documentation for its closure. Since management's actions meet the intent of our recommendation, we are closing this recommendation upon issuance of this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Dilawar Syed, Deputy Administrator, Office of the Administrator
Arthur Plews, Chief of Staff, Office of the Administrator
David Brown, Acting Chief of Staff, Office of the Administrator
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Background

The U.S. Small Business Administration (SBA) Disaster Assistance Program is the federal government's primary program for assisting small businesses, small agricultural cooperatives, and most private, nonprofit organizations that are affected by declared disasters. Under the Small Business Act, SBA provides up to \$2 million in Economic Injury Disaster Loans (EIDL) to help those who are eligible meet financial obligations and operating expenses.

Congress approved the Coronavirus Preparedness and Response Supplemental Appropriations Act, signed by the President on March 6, 2020. This declared the Coronavirus Disease 2019 (COVID-19) pandemic a disaster and authorized SBA to provide EIDLs to eligible entities under the Small Business Act. At that time, SBA had \$1.1 billion in disaster loan credit subsidies available, which, based on the subsidy rate at that time, was enough to support \$8 billion in lending authority for disaster loans.¹ These funds were exhausted.

On April 24, 2020, Congress approved additional legislation² that increased funding to SBA's disaster loan program. Congress provided \$50 billion in a loan credit subsidy which, based on the subsidy rate at that time, provided \$367 billion in lending authority for fiscal year 2020. The Consolidated Appropriations Act, 2021, extended the authority for SBA to make COVID-19 EIDLs through December 31, 2021. SBA stopped accepting applications for new COVID-19 EIDLs or advances on January 1, 2022. On May 6, 2022, SBA announced that COVID-19 EIDL funds were exhausted and officially closed the program.

The Senate Small Business and Entrepreneurship Committee expressed concern to SBA in letters dated May 6, 2022, and July 15, 2022, about whether the agency had exhausted authorized funds for COVID-19 EIDLs when the program closed. In the July 15, 2022 letter, the committee believed SBA should have had approximately \$7 billion available for lending. Additionally, in the then Associate Administrator for the Office of Capital Access (OCA) testimony on August 2, 2022, to the Senate Small Business and Entrepreneurship Committee, it was stated that approximately 61,000 COVID-19 EIDL applications received on or before May 6, 2022, were being processed. Of the 61,000 pending COVID-19 EIDL applications, 2/3 were loan increase requests, and 1/3 were

¹ Lending authority is driven by the subsidy rate that fluctuates each year and is dependent upon expected payments, disbursements, and defaults.

² Public Law 116-39 dated April 24, 2020 (Paycheck Protection Program and Health Care Enhancement Act).

reconsiderations of denied loan applications. However, the then Associate Administrator stated that most of these applications were deemed unworkable because the applicants had not filed a tax return in 2019.³

SBA had \$2 billion in remaining unobligated lending authority on May 6, 2022, when the program was closed. However, SBA continued to 1) process loan applications they had already received, 2) reconsider requests previously declined, and 3) consider appeals of previously declined loans, which left \$231 million in unobligated funds remaining as of September 30, 2022. SBA had approved approximately 4 million COVID-19 EIDLs totaling \$387 billion as of September 30, 2022.

Objective

Our objective was to review SBA's processing of COVID-19 EIDL funds that were returned to the agency by borrowers, banks, or other sources.

Results

We found significant delays in the decision process related to returned COVID-19 EIDL funds. These were funds returned to SBA by banks for a variety of reasons, including closed borrower bank accounts, invalid borrower bank account numbers, or suspicion of fraud. The majority of these COVID-19 EIDLs were eventually made available to small business owners, including the original borrowers. However, SBA canceled \$3.1 billion of these loans, part of the returned COVID-19 EIDL funds, over several months.

SBA also canceled \$8.1 billion of undisbursed COVID-19 EIDLs. The agency had not disbursed these loans because of inaccurate applicant information or other reasons, including fraud indicators that had not yet been resolved. The returned and undisbursed COVID-19 EIDLs, totaling \$11.2 billion, were canceled after the program closed, so the funds could not be made available to other eligible COVID-19 EIDL borrowers.

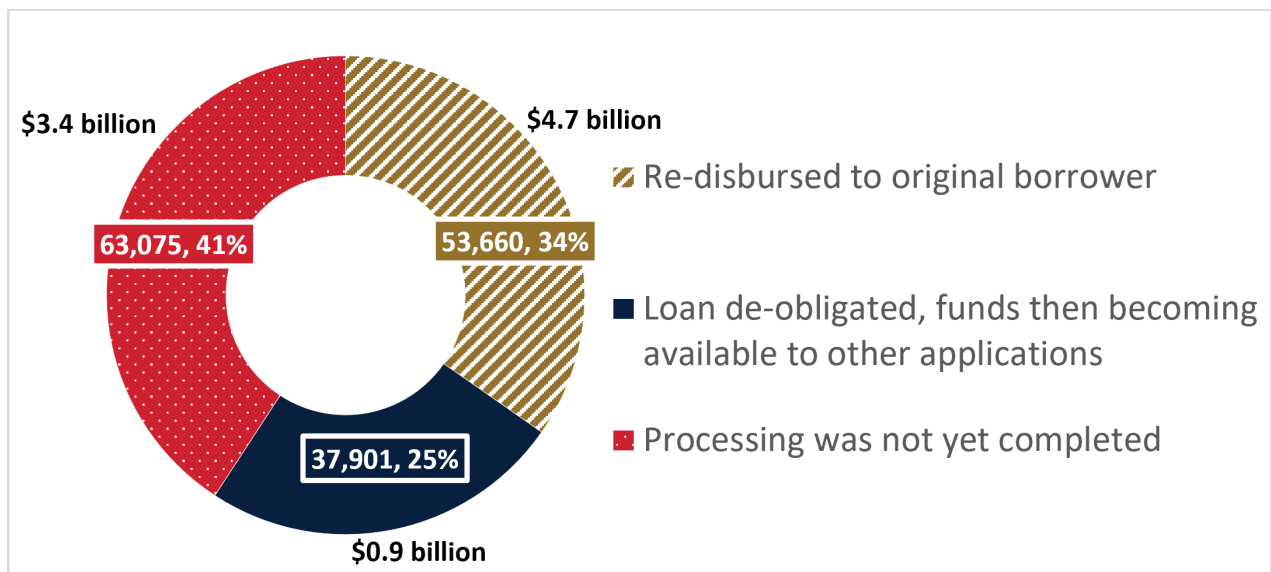
On June 3, 2023, the Fiscal Responsibility Act of 2023 was enacted, which rescinded unobligated COVID-19 EIDL subsidy balances.

³ SBA Office of Inspector General has initiated a separate review of SBA's reconsideration process for COVID-19 EIDLs.

SBA's Processing of COVID-19 EIDL Returned Funds

We reviewed approximately \$9 billion in COVID-19 EIDL funds returned by banks from the start of the COVID-19 EIDL program, March 2020 through September 30, 2022 (figure 1). These funds were re-disbursed to the original borrower, de-obligated and made available to other borrowers, or were in unresolved or pending status.

Figure 1: SBA's Processing of the \$9 Billion in COVID-19 EIDL Returned Funds From Banks Through September 30, 2022



Source: Data provided by the SBA Office of Performance, Planning, and the Chief Financial Officer

Funds Re-disbursed to Original Borrowers

Of the \$9 billion in COVID-19 EIDL funds returned by banks, we found 53,660 transactions totaling approximately \$4.7 billion that were re-disbursed to original borrowers. This represented 34 percent of all returned funds (see figure 1). The range of processing times for re-disbursements to original borrowers was between 1 and 840 days, averaging 114 days.

Our analysis of processing times for these re-disbursements, as of September 30, 2022, showed approximately:

- 51 percent of the re-disbursements were processed within 1–60 days;
- 31 percent were processed within 61 and 180 days;
- 11 percent were processed between 181 and 365 days; and
- 7 percent were processed after 365 days.

SBA indicated processing was contingent upon borrowers returning requested documents. While more than half of the re-disbursements were processed within 2 months, SBA did not have any processing timeframes or written procedures in place to manage and monitor the final decision process.

Funds De-obligated and Made Available to Other Borrowers

Of the \$9 billion in COVID-19 EIDL returned funds, there were 37,901 transactions totaling \$912 million that were subsequently de-obligated as of September 30, 2022. This represented 25 percent of all returned funds (see figure 1). More than 80 percent of these de-obligations were processed after 1 year. The range of processing times for de-obligation was between 1 and 801 days, averaging 417 days.

Our analysis of processing times for these de-obligations, as of September 30, 2022, showed approximately:

- 2 percent were processed between 1 and 60 days;
- 7 percent were processed between 61 and 180 days;
- 7 percent were processed between 181 and 365 days; and
- 84 percent were processed after 365 days.

Our analysis shows that, overall, the agency re-disbursed funds to original borrowers faster than de-obligating funds.

Our analysis also showed that SBA did not have any processing timeframes or written procedures in place to manage and monitor the de-obligation of loans. Had these loans been de-obligated within a reasonable time from when the returned funds occurred, these funds could have been loaned to other borrowers who were informed that funds were exhausted when the program closed on May 6, 2022.

Funds Unresolved and Pending Action

Of the \$9 billion of COVID-19 EIDL returned funds, there were 63,075 totaling approximately \$3.4 billion that were in unresolved or pending status as of September 30, 2022. This represents 41 percent of all returned funds (see figure 1). Specifically, there was neither a re-disbursement to the original borrower nor a de-obligation of the loan to free up funds. Between October 25, 2022, through February 14, 2023, SBA de-obligated \$3.1 billion of this \$3.4 billion (see section below entitled “COVID-19 EIDL De-obligations”). If these loans had been de-obligated within a reasonable time from when the funds were returned, these funds could have been loaned to other borrowers prior to the program closing on May 6, 2022.

COVID-19 EIDL De-obligations

In addition to the returned COVID-19 EIDL funds, SBA had a backlog of undisbursed COVID-19 EIDLs totaling \$8.1 billion. This was due to inaccurate applicant information, fraud indicators the agency had not yet resolved, or because the borrower declined funds.

Between October 25, 2022, and February 14, 2023, SBA processed eight batch de-obligations that consisted of \$3.1 billion of returned funds and the backlog of \$8.1 billion of undisbursed COVID-19 EIDLs, totaling \$11.2 billion. These de-obligations were processed after the program closed; therefore, these funds could not be made available to other borrowers.

The range of processing times for these batch de-obligations was between 176 and 1,015 days, averaging 873 days.

Our analysis of processing times for these batch de-obligations showed approximately:

- 0.5 percent were processed between 176 and 365 days,
- 65.7 percent were processed between 366 and 900 days, and
- 33.8 percent of the de-obligations were processed after 900 days.

As previously noted, SBA did not have any processing goals or written procedures in place to manage and monitor this function. As a result of the batch de-obligations, the balance of unobligated funds increased.

The unobligated funds were authorized exclusively for making COVID-19 EIDLs, but the program closed in May 2022, and on June 3, 2023, the Fiscal Responsibility Act of 2023 was enacted, which rescinded unobligated COVID EIDL subsidy balances.

Recommendations

To address our findings, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Create processing timeframes for returned funds for current and future disaster programs.

Evaluation of Agency Response

SBA management provided formal comments that are included in their entirety in appendix 1. Management partially agreed with recommendation 1 and submitted supporting documentation for its closure.

Management stated that it had previously provided OIG with documentation of historical de-obligation of funds and cancellations related to non-COVID disaster lending programs and that the Fiscal Responsibility Act of 2023 rescinded unobligated COVID-19 balances on June 3, 2023.

It is important to note that this review was limited to COVID-19 EIDLs; therefore, we did not request or obtain documentation for non-COVID disaster programs. Additionally, as noted in our report, we acknowledge that the program closed in May 2022 and that the Act rescinded unobligated balances in June 2023, and as a result, we did not make a recommendation regarding this matter.

The following section summarizes the status of our recommendation.

Recommendation 1

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to create processing timeframes for returned funds for current and future disaster programs.

Status: Closed

Management partially agreed with the recommendation and submitted documentation with their response demonstrating the recommendation has been resolved and implemented. Specifically, management provided a policy titled “Overview of Disbursement Process in Unified Lending Platform” that establishes processing timeframes for the handling of returned funds

within the ULP system. Management's actions meet the intent of our recommendation; therefore, we are closing this recommendation upon issuance of the report.

Scope and Methodology

We prepared this management advisory to bring to your attention concerns with SBA's processing of COVID-19 EIDL funds that were returned to the agency by borrowers, banks, or other sources. We reviewed federal laws, regulations, policies, and procedures pertaining to the SBA COVID-19 EIDL loan program and met with officials from the Office of the Chief Financial Officer and SBA Office of Capital Access to discuss processing of COVID-19 EIDLs and handling of returned funds.

We reviewed COVID-19 EIDL data from the inception of the program through September 30, 2022. We also reviewed data of batch de-obligations of COVID-19 EIDLs between October 25, 2022, through February 14, 2023. This data was provided to us by SBA. The *Independent Auditors' Report on SBA's Fiscal Year 2022 Financial Statements* (Report 23-02) issued on November 15, 2022, by KPMG noted concerns with SBA information systems, indicating the data may not be reliable. We performed limited testing of SBA's data by tracing a sample of 15 items from the list of returned funds to the Electronic Loan Information Processing System. While we could not completely test the data for reliability, we based this review on the data the agency uses to manage its program and that which was provided to us.

We conducted this review in alignment with the Office of Inspector General's quality control standards and the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Federal Offices of Inspector General*, which requires that we conduct our work with integrity, objectivity, and independence.

Appendix 1: Agency Response

U.S. Small Business Administration
Response to Report

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416



TO: Hannibal “Mike” Ware, Inspector General
The Office of Inspector General (OIG)

FROM: Jihoon Kim **JI KIM** Digitally signed by JI KIM
Date: 2024.04.04 17:15:31
-04'00'
Director of Financial Program Operations,
Office of Capital Access

SUBJECT: Management Response to OIG Draft
Report “SBA’S Handling of Returned
COVID-19 Economic Injury Disaster
Loan Funds and De-obligations of
Approved Loans (Project 22805)

DATE: April 03, 2024

Thank you for providing the Office of Capital Access (OCA) the opportunity to respond to OIG’s Draft Report entitled, “Management Response: SBA’S Handling of Returned COVID-19 Economic Injury Disaster Loan Funds and De-obligations of Approved Loans (Project 22805),” dated March 04, 2024.

OIG Recommendation 1 – To address our findings, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to create processing timeframes for returned funds for current and future disaster programs.

SBA Response: SBA partially agrees with the recommendation and has previously provided the OIG with documentation of historical de-obligation of funds and cancellations related to non-COVID disaster lending programs. On June 3, 2023, the Fiscal Responsibility Act of 2023 was enacted, which rescinded unobligated COVID-19 subsidy balances. The program has closed and unobligated funds have been resolved. SBA has documented the historical processes and procedures for returned funds in current and future disaster lending programs. SBA has submitted documentation with this Management Response to demonstrate the recommendation made by the OIG has been mitigated and we are requesting closure of this recommendation on issuance of the OIG Final Report.