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Will Covid-era SBA loans be forgiven? Here's how Trump's win changes the dynamics.

Does a Trump victory make Covid EIDL forgiveness more likely? Experts are doubtful.
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Some small-business owners are hopeful an incoming President Donald Trump might take action on forgiving Covid-era loans for small businesses.

About 4 million Covid-19 Economic Injury Disaster Loans were doled out from 2020 to 2022. Since then, the Small Business Administration has been forced to charge off tens of billions of dollars in loans while another \$30 billion are sitting in hardship programs.

A report from the 12 Federal Reserve Banks found many business owners with Covid EIDL loans are caught in a vicious cycle of a **growing debt load and poorer financial performance**.

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Some small-business owners have started petitions to ask Congress or the White House for forgiveness, while others have encouraged letters to lawmakers.

But experts are doubtful on the possibility of widespread forgiveness for the loans.

Leslie Tayne, a financial attorney and author of "Life & Debt," stressed that while a unified Republican Congress could make passing legislation easier, it has not always been that easy.

The SBA had previously decided against selling its EIDL portfolio to a third-party servicer because of the high costs involved.

"With around \$50 billion accrued in interest and nearly 4 million borrowers affected, the scale of potential forgiveness would be significant. This could be a motivating factor for action and a deterrent at the same time because of budget concerns," Tayne said.

She said active petitions and advocacy efforts could help influence potential legislation, but the farther the country gets from the pandemic, the less urgency there is for any type of relief legislation.

But Rohit Arora, CEO of online lending platform Biz2Credit, said Covid EIDL forgiveness was a "remote possibility," as the administrative burden and cost would be high.

"The Trump administration is likely to demonstrate its tough law-and-order stance and follow a strong enforcement policy to prosecute any fraud that was perpetrated in the the EIDL program during the pandemic. It is widely known that EIDL was racked by fraud, waste and abuse, even more than the other large government financed programs of the pandemic-era," Arora said.

He said one option would be to create some kind of limited form of deferral or tax relief from the interests costs of their loans – likely combined with some kind of maximum income requirement to ensure relief is challenged to businesses that need it most.

Joe Camberato, CEO of National Business Capital, said there has been no word from Congress on EIDL forgiveness, but that the loans should not be forgiven. These loans came alongside two rounds of Paycheck Protection Program forgivable loans and other programs and had flexible, low-interest payment terms.

"Loans like this are rare; if a business can't make these terms work, it's probably not the loan that's the issue. More likely, it points to other underlying management issues," Camberato said.

By now, businesses have had time to recover and adjust, and Covid cannot keep being the reason some of them struggle, he said.

"Forgiving these loans just isn't fair to taxpayers, who shouldn't have to foot the bill for businesses that haven't adapted. We need to look at how these businesses are run, rather than forgiving loans that were designed to give them every chance to succeed."

SBA's ongoing Covid EIDL challenges

The agency is going to have a big challenge servicing the massive loan portfolio, according to the SBA Office of the Inspector General, which serves as an independent watchdog for the agency.

It said in its **annual report released Oct. 15** that prior to the Covid-19 pandemic, the SBA typically serviced about 263,000 disaster loans totaling about \$9.4 billion.

But today, the agency is servicing about 2.5 million disaster loans totaling \$283 billion – a more than ninefold increase.

That's because of the massive number of Covid-19 Economic Injury Disaster Loans the agency made from 2020 through 2022, in which it processed about 4.1 million loans for roughly \$390 billion. On top of that, the SBA typically services a disaster loan until it is paid in full or up until default at 180 days, but for Covid EIDL loans, it struck a deal with the Treasury Department to serve even defaulted loans for up to two years.

The SBA has taken steps to service such a massive portfolio, according to the report, such as establishing a standalone Covid-19 EIDL servicing center in Fort Worth, Texas, with more than 1,500 employees. Under the Trump administration in 2020, the SBA reduced or eliminated internal controls on its lending in order to expedite loans during the initial Covid-19 crisis. The IG estimates the agency ultimately disbursed about \$236 billion in fraudulent Covid EIDL loans.

About \$36 billion in Covid EIDL loans is enrolled in the SBA's Hardship Accommodation Program across about 301,000 loans, according to data provided to *The Playbook* as a result of a Freedom of Information Act request to the SBA.

The HAP is a six-month program that allows small-business owners to pay a fraction of its total payment, but business owners can enroll up to five times, with the first two rounds requiring 10% of the total payment, then 50%, then two rounds at 75%. Businesses with loans under \$200,000 can apply and be approved automatically, the SBA said.

Meanwhile, many of the SBA's EIDL loans are being charged off and considered in default. In 2021, the agency charged off \$21.5 million in EIDL loans. In 2022, that grew to \$198.2 million. Last year, the agency charged off \$52 billion in EIDL loans – about 17% of its portfolio.

The SBA, tasked with selling off the collateral it required of businesses when it issued EIDL loans, is turning to those same business owners that put up the collateral for assistance.

The agency is asking owners of those business – companies currently in bankruptcy proceedings – along with other creditors, such as landlords, to draw on their "civic-mindedness and desire as a taxpayer" to spend time and money addressing the SBA's own lien-holder rights in regards to the collateral.

That number is expected to grow, too, with the SBA finding itself **among the top creditors for many small businesses declaring bankruptcy**.

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