

Economic Injury Disaster Loans for Small Businesses

If your small business has suffered substantial economic injury, regardless of physical damage, and is located in a declared disaster area, you may be eligible for financial assistance from the U.S. Small Business Administration.

Small businesses and small agricultural cooperatives that have suffered substantial economic injury resulting from a physical disaster or an agricultural production disaster designated by the Secretary of Agriculture may be eligible for the SBA's Economic Injury Disaster Loan Program. Substantial economic injury is the inability of a business to meet its obligations as they mature and to pay its ordinary and necessary operating expenses.

An EIDL can help you meet necessary financial obligations that your business could have met had the disaster not occurred. It provides relief from economic injury caused directly by the disaster and permits you to maintain a reasonable working capital position during the period affected by the disaster.

The SBA provides EIDL assistance only to those businesses we determine are unable to obtain credit elsewhere. The SBA can provide up to \$1.5 million in disaster assistance to a business. This loan cap includes both economic injury and physical damage assistance. Your loan amount will be based on your actual economic injury and financial needs.

The interest rate on EIDLs cannot exceed 4 percent per year. The term of these loans cannot exceed 30 years. Your term will be determined by your ability to repay the loan. (See SBA Publication No. DA-2, *Physical Disaster Business Loans*.)

Frequently Asked Questions about Economic Injury Disaster Loans

Q. How may I use an EIDL?

A. The loan will provide operating funds until your business recovers. To the extent you could have made payments had the disaster not occurred, you may use the loan to make payments on short-term notes, accounts payable and installment payments on long-term notes. (See SBA publication No. DA-2, *Physical Disaster Business Loans*.)

Q. How much money may I borrow?

A. You may request an EIDL for the amount of economic injury and operating needs, but not in excess of what your business could have paid had the disaster not occurred. In determining your eligible amount, the SBA will look at:

- the total of your debt obligations;
- operating expenses that mature during the period affected by the disaster, plus the amount you need to maintain a reasonable working capital position during that period;
- and expenses you could have met and a working capital position you could have maintained had the disaster not occurred.

The amount of your economic injury does not automatically represent the dollar amount of your loan eligibility; the SBA will evaluate the information you provide and determine the reasonableness of your loan request.

Q. Must I submit a personal financial statement with my loan application?

A. Yes. The SBA must review your financial statement and one for each partner, officer, director and stockholder with 20 percent or more ownership. The SBA requires the principals of the business to personally guarantee repayment of the loan and, in some instances, to secure the loan by pledging additional collateral.

Q. Must I sell assets that are not used in my regular business operations before I am eligible for an EIDL?

A. The SBA will review the availability of such assets to determine if part or all of your economic injury might be remedied by using such assets. The business and its principal owners must use their own resources to overcome the economic injury to the greatest extent possible without causing undue hardship.

Q. If I can borrow from a bank, am I still eligible for SBA assistance?

A. Private credit sources must be used as much as possible to overcome the economic injury. The SBA

can provide EIDL assistance only to the extent the business (and its principals) cannot recover by using its own resources and normal lending channels.

Q. What are some prohibited uses of an EIDL?

A. You may not use funds to pay cash dividends or bonuses, or for disbursements to owners, partners, officers or stockholders not directly related to the performance of services for the business. The SBA will not refinance long-term debts or provide working capital that was needed by the business prior to the disaster.

Q. Is collateral required for an EIDL?

A. Generally a business must pledge collateral to the extent available. Occasionally, the SBA will make very small EIDLs on an unsecured basis. The SBA will not decline an EIDL request solely because available collateral will not adequately secure the loan, and a business will not be required to pledge more collateral than is necessary. The SBA may decline a loan if a business has collateral available but refuses to pledge it.

Q. How long will I have to pay off the SBA loan?

A. The SBA will assess your financial situation and will set loan terms based on your needs and repayment ability. The maximum maturity for disaster loans is 30 years.

Q. What kind of documentation should I use to show my losses?

A. In order for the SBA to compare your financial condition and operating results preceding the disaster with those during and since the disaster period, you must furnish balance sheets and operating statements for similar periods of time. The specific requirements are contained in the EIDL application form.

Q. If I receive an EIDL, may I spend the loan money any way I want?

A. No. An EIDL is intended to help you maintain a secure financial condition until your business is back to normal. Your loan will be made for specific and designated purposes. Remember that the penalty for misusing disaster funds is immediate repayment of one-and-a-half times the original amount of the loan. The SBA requires that you keep receipts and good records of all loan expenditures for three years following receipt of your SBA loan.

Q. May I expand my business facilities or purchase a new line of inventory with an EIDL?

A. No.

Q. If I show the SBA that I am not making a profit, is that enough to qualify me for an EIDL?

A. No. Neither lack of profit or loss of anticipated sales alone is sufficient to establish substantial economic injury. Substantial economic injury occurs only when you cannot meet current obligations because of the disaster. Indicators of economic injury might be a larger than normal volume of receivables, a lower sales volume, slow inventory turnover, and the development of delinquencies in trade payables, current accruals and debt payments.

Q. Are religious and nonprofit organizations eligible for an EIDL?

A. No. Only profit-oriented operating small businesses and small agricultural cooperatives may apply.

Q. How soon will I know if I get the loan?

A. That depends on how soon you file a complete SBA loan application. We must calculate the amount of economic injury and the working capital and other needs of your business. We must be satisfied that you can repay the loan out of business operations, and we must take reasonable safeguards to help ensure the loan is repaid. The SBA loan application asks for the information we need. Since

we process applications in the order received, the faster you can return it with all the needed information, the faster we can work on it. We try to make a decision on each application within 21 days. Be sure the information in your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect the money?

A. Loans greater than \$5,000 have to be secured. After we approve a request, we will tell you what documents are needed to close the loan. When we receive these documents, we can order the checks. You will receive the money in installments, as it is needed.

Q. Is flood insurance needed to get a loan?

A. If the business is in a special flood hazard area, it must have flood insurance before we can disburse a loan. If the business was legally required to maintain flood insurance but did not, a disaster loan will not be made.

For More Information

The SBA delivers loans through four disaster area offices located in Niagara Falls, N.Y.; Atlanta, Ga.; Fort Worth, Texas; and Sacramento, Calif. When a disaster occurs, information on SBA assistance is available through a toll-free number published locally.

SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:

- Phone: 1-800 U ASK SBA
- Fax: 202-205-7064
- E-mail: answerdesk@sba.gov
- TDD: 704-344-6640
- Your rights to regulatory fairness: 1-888-REG-FAIR

Internet:

SBA Home page: www.sba.gov

Gopher: <http://www.sba.gov/gopher>

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