



November 2023

DISASTER LOAN PROGRAM

SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities

GAO Highlights

Highlights of [GAO-24-106682](#), a report to congressional committees

Why GAO Did This Study

Natural disasters cause billions of dollars of damage each year. Underserved communities with low levels of community resilience may be disproportionately affected. SBA's Disaster Loan Program assists homeowners, businesses, and others affected by natural and other disasters.

The Explanatory Statement to the Consolidated Appropriations Act, 2023 includes a provision for GAO to report on delivery of SBA disaster recovery support and how the needs of certain communities are addressed. This report examines (1) steps SBA has taken to improve equitable access to the Disaster Loan Program and (2) loan outcomes in and characteristics of communities in which program applicants and recipients are located.

GAO reviewed SBA policies and procedures and interviewed SBA officials. GAO also analyzed disaster loan application data for all 17 hurricanes in fiscal years 2017–2022 that caused at least \$1 billion in damage. This included calculating loan outcomes and using census data to determine the demographic and socioeconomic characteristics of communities in which applicants were located. Because of the magnitude of the four fiscal year 2017 hurricanes and Puerto Rico's unique demographics, GAO analyzed those applications separately.

What GAO Recommends

GAO recommends that SBA assess its lending criteria as part of its internal review of the Disaster Loan Program. SBA agreed, stating it would assess its lending criteria and evaluate any relevant gaps in loan outcomes.

View [GAO-24-106682](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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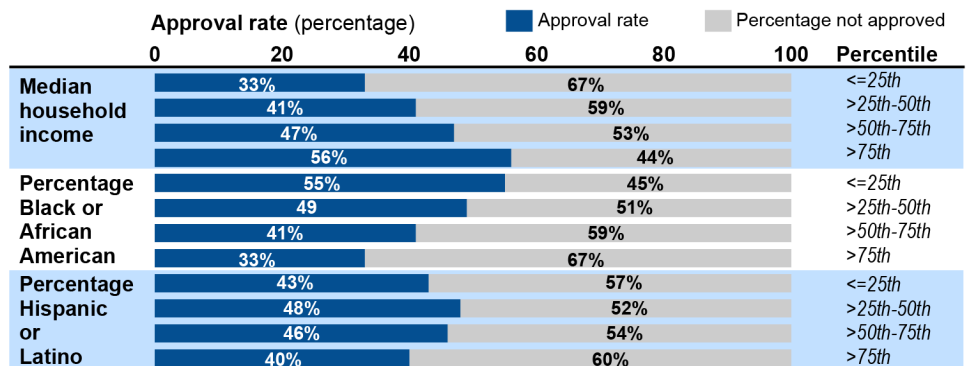
SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities

What GAO Found

The Small Business Administration (SBA) has taken initial steps to improve access to the Disaster Loan Program for historically underserved communities (such as those with high poverty rates or high percentages of Black or African American, Asian, and Hispanic or Latino residents). In its 2022 Equity Action Plan, SBA identified its lending criteria, such as satisfactory credit score, as a barrier that underserved communities face in accessing the program. SBA plans to conduct a congressionally requested review to determine if any current practices provide unequal outcomes for certain underserved communities and, if so, develop recommendations to improve outcomes. However, SBA does not plan to assess its lending criteria as part of this review. Doing so would help it to better determine if changes to the criteria are needed to reduce unequal outcomes for historically underserved communities, consistent with Congress's direction.

SBA declined about 40 percent of disaster loan applications for 13 hurricanes in fiscal years 2018–2022. Loan outcomes tended to be worse in communities with higher percentages of low-income and Black or African American individuals. Of the 312,916 applications SBA accepted in the first stage of its application review, SBA approved 42 percent and declined 38.6 percent. Applications were declined primarily due to insufficient credit score or lack of repayment ability. The average approval rate in communities with the lowest median household incomes was 23 percentage points lower than in communities with the highest median household incomes. The average approval rate in communities with the highest percentages of Black or African American residents was 22 percentage points lower than in communities with the lowest percentages of Black or African American residents. Results were similar for areas affected by four hurricanes in fiscal year 2017 and for Puerto Rico.

Disaster Loan Approval Rates by Socioeconomic and Demographic Characteristic in Communities Affected by 13 Hurricanes, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration data. | GAO-24-106682

Note: For each characteristic, GAO ordered the census tracts within the disaster areas from the lowest to the highest prevalence of that characteristic and divided the ordered distribution into four equal groups (quartiles). The tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

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Abbreviations

ACS	American Community Survey
EIDL	Economic Injury Disaster Loan
FEMA	Federal Emergency Management Agency
HUD	Department of Housing and Urban Development
LGBTQ+	lesbian, gay, bisexual, transgender, and queer
PDL	physical disaster loan
SBA	Small Business Administration
SBDC	Small Business Development Center

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November 30, 2023

The Honorable Chris Van Hollen
Chair
The Honorable Bill Hagerty
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Steve Womack
Chair
The Honorable Steny Hoyer
Ranking Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
House of Representatives

Natural disasters affect numerous American communities and cause billions of dollars of damage each year. From 2016 through 2022, the U.S. sustained 122 weather and climate disasters, with overall damage reaching or exceeding \$1 billion and cumulative costs exceeding \$1 trillion. Historically underserved communities with low levels of community resilience may be disproportionately affected by damage caused by natural disasters.¹

The Small Business Administration (SBA), along with more than 30 other federal agencies and departments, provides assistance to help businesses, nonprofits, homeowners, and renters recover from federally

¹Definitions of underserved communities vary. In an executive order on advancing racial equity and support for underserved communities, the Biden administration defined underserved communities as populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life. The executive order provided examples of these populations, including Black, Latino, and Indigenous and Native American persons, Asian Americans and Pacific Islanders and other persons of color; members of religious minorities; lesbian, gay, bisexual, transgender, and queer (LGBTQ+) persons; persons with disabilities; persons who live in rural areas; and persons otherwise adversely affected by persistent poverty or inequality. See White House, *Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, Exec. Order No. 13985, 86 Fed. Reg. 7009 (Jan. 25, 2021). Community resilience is the ability to prepare for anticipated hazards, adapt to changing conditions, and withstand and recover rapidly from disruptions.

declared natural disasters. Although SBA is known primarily for its financial support of small businesses, its Disaster Loan Program assists most types of businesses, private nonprofit organizations, homeowners, and renters affected by declared disasters. Through this program, SBA offers low-interest loans for physical and economic damage to businesses, nonprofits, homeowners, and renters to help repair, rebuild, and recover from economic losses after a declared disaster. The majority of the agency's disaster loans are made to individuals and households to help repair and replace homes and personal property.

The Explanatory Statement to the Consolidated Appropriations Act, 2023 includes a provision for us to report on recovery outcomes in communities that received SBA disaster recovery support and identify how SBA programs address the needs of economically disadvantaged communities or communities of color.² This report examines (1) steps SBA has taken to improve equitable access to the Disaster Loan Program and (2) loan outcomes in and characteristics of communities in which program applicants and recipients are located. Consistent with the Explanatory Statement, we focused on the following communities that may be underserved: economically disadvantaged communities as indicated by characteristics such as median household income and poverty rate and communities with high percentages of Black or African American, Asian, and Hispanic or Latino residents.

To address the first objective, we reviewed Disaster Loan Program policies and procedures related to the loan process and equitable access, including lending criteria outlined in the program's standard operating procedure, and SBA's outreach materials to communities affected by a disaster. We also reviewed SBA's 2022 Equity Action Plan and compared it against the requirements for federal agencies to advance racial equity and support for underserved communities in Executive Order 13985.³ In addition, we compared SBA's plans to evaluate its current program practices against Executive Order 14091 and the provision in the Explanatory Statement to the Consolidated Appropriations Act, 2023 that

²For the Explanatory Statement, see CONG. REC. S7819, S8492 (Dec. 20, 2022). Pub. L. No. 117-249, § 2, 136 Stat. 2350, 2351 (2022) includes a provision for us to report on any unique challenges that communities in rural areas face compared to communities in urbanized areas when seeking to obtain disaster assistance. We plan to report on this topic separately in early 2024.

³Small Business Administration, *Equity Action Plan* (Washington, D.C.: April 2022) and Exec. Order No. 13985, 86 Fed. Reg. 7009 (Jan. 25, 2021).

requires the evaluation.⁴ We interviewed officials in SBA's Offices of Capital Access and Disaster Recovery and Resilience and in SBA's two Field Operations Centers.

To address the second objective, we analyzed SBA application data for all 17 hurricanes on the National Oceanic and Atmospheric Administration's list of billion-dollar disaster incidents in fiscal years 2017–2022. We focused on hurricanes, as opposed to other types of disasters, because they affect large stretches of land and often affect economically, racially, and ethnically diverse communities. Three of the top five costliest hurricanes on record occurred in fiscal year 2017, and fiscal year 2022 was the most recent complete fiscal year at the beginning of our review. Using the disaster loan application data, we determined loan outcomes in affected communities, including the numbers and percentages of applications accepted, approved, declined, and withdrawn.⁵

We also geocoded the SBA disaster loan application data and combined the geocoded data with census-tract data from the Census Bureau's American Community Survey (ACS) to examine the demographic and socioeconomic characteristics of the census tracts in which applicants and recipients of SBA disaster loans were located.⁶ Appendix I describes our objectives, scope, and methodology in greater detail.

The body of this report focuses on aggregate results for the 13 hurricanes in our review that occurred in fiscal years 2018–2022. In appendixes II and III, respectively, we present (1) our aggregate results for the four fiscal year 2017 hurricanes in our review and (2) our findings on the characteristics of communities in Puerto Rico affected by the hurricanes in our review. We present these analyses separately because the large number of applications for fiscal year 2017 disasters and the unique

⁴White House, *Executive Order on Further Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, Exec. Order No. 14091, 88 Fed. Reg. 10825 (Feb. 22, 2023).

⁵We assessed the reliability of the application data by reviewing relevant documentation, interviewing knowledgeable agency officials, and performing electronic testing. We determined these data were sufficiently reliable for the purpose of describing the outcomes of disaster loan applications.

⁶The ACS is conducted by the Census Bureau to help local officials, community leaders, and businesses understand the changes taking place in their communities. It is the premier source for detailed population and housing information. The ACS releases new data every year in the form of estimates. To assess the reliability of the census data, we reviewed technical information. We determined the data were sufficiently reliable for the purposes of reporting on community socioeconomic and demographic characteristics.

demographic composition of Puerto Rico's communities may obscure trends in the 2018–2022 period. Appendix IV provides the loan outcomes for each of the 17 hurricanes in our review individually.

We conducted this performance audit from March 2023 to November 2023 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

Federal Disaster Assistance

Federal agencies can respond to a disaster when effective response and recovery are beyond the capabilities of affected state and local governments. The SBA Disaster Loan Program is activated through federal disaster declarations. Declarations can be issued by the President or the SBA Administrator if certain criteria are met.⁷

The National Disaster Recovery Framework outlines a strategy for the delivery of federal disaster recovery assistance. This framework identifies guiding principles that enable recovery partners to provide a comprehensive national recovery strategy facilitating the effective coordination of all levels of federal, state, and local government with the private sector and other community recovery entities. It charges federal recovery partners with identifying and removing social and institutional barriers to program participation, whether intentional or unintentional. According to the framework, one critical aspect of federal assistance that contributes to successful individual and community outcomes is the extent to which individuals and communities can access the assistance they most need.

The Federal Emergency Management Agency (FEMA) has lead responsibility for and offers disaster assistance. At least 30 other federal agencies, including SBA through its Disaster Loan Program, also administer disaster assistance programs and activities. One FEMA disaster assistance program is the Individuals and Households Program, which provides financial assistance and direct services to eligible

⁷See 13 C.F.R. § 123.3. See also 42 U.S.C. § 5170 for further details on the criteria for issuing a major disaster declaration.

individuals and households. To be considered for certain categories of this assistance, such as personal property and transportation assistance, applicants must first apply to SBA for a disaster loan. If SBA denies these applicants, they may then be referred to FEMA.⁸

SBA Disaster Loan Program

Through its Disaster Loan Program, SBA offers low-interest loans for physical and economic damage to businesses, nonprofits, homeowners, and renters to help repair, rebuild, and recover from economic losses after a declared disaster. The majority of the agency's disaster loans are made to homeowners and renters to help repair and replace homes and personal property. For these types of loans, loan eligibility is restricted to uninsured or otherwise uncompensated disaster losses. There are three main types of loans for disaster-related losses:⁹

- **Home and personal property loans.** Homeowners may apply for up to \$500,000 to repair or replace their primary residences, and both homeowners and renters can apply for up to \$100,000 to replace or repair personal property.¹⁰
- **Business physical disaster loans.** Qualified businesses and private nonprofit organizations can apply for up to \$2 million to cover disaster losses.¹¹
- **Economic Injury Disaster Loans (EIDL).** Eligible small businesses, certain small agricultural businesses, and eligible private nonprofit organizations can apply for up to \$2 million in financial assistance for

⁸Assistance may also be available if an applicant can demonstrate that the assistance received from SBA does not satisfy their total necessary expenses or serious needs arising out of the major disaster. 44 C.F.R. § 206.119(a)(3).

⁹Eligible SBA disaster loan borrowers may apply to receive an increase in disaster loan funding for their home or business for mitigation measures implemented after a disaster has occurred. To assist borrowers in making these upgrades, SBA disaster loans can be increased by an amount equal to the lesser of the cost of the mitigation measure or up to 20 percent of the verified loss. For home loans, a maximum increase of \$500,000 applies. 13 C.F.R. §§ 123.107, 123.204.

¹⁰These loan limits are applicable to disasters declared on or after July 31, 2023. For the period of our data analysis (fiscal years 2017–2022), the loan limits were lower. Homeowners could apply for up to \$200,000 to repair or replace their primary residences, and both homeowners and renters could apply for up to \$40,000 to replace or repair personal property.

¹¹In certain circumstances, SBA may waive the \$2 million limitation. 13 C.F.R. § 123.202.

economic injury suffered as a result of a declared disaster (regardless if there has been physical damage to the business).¹²

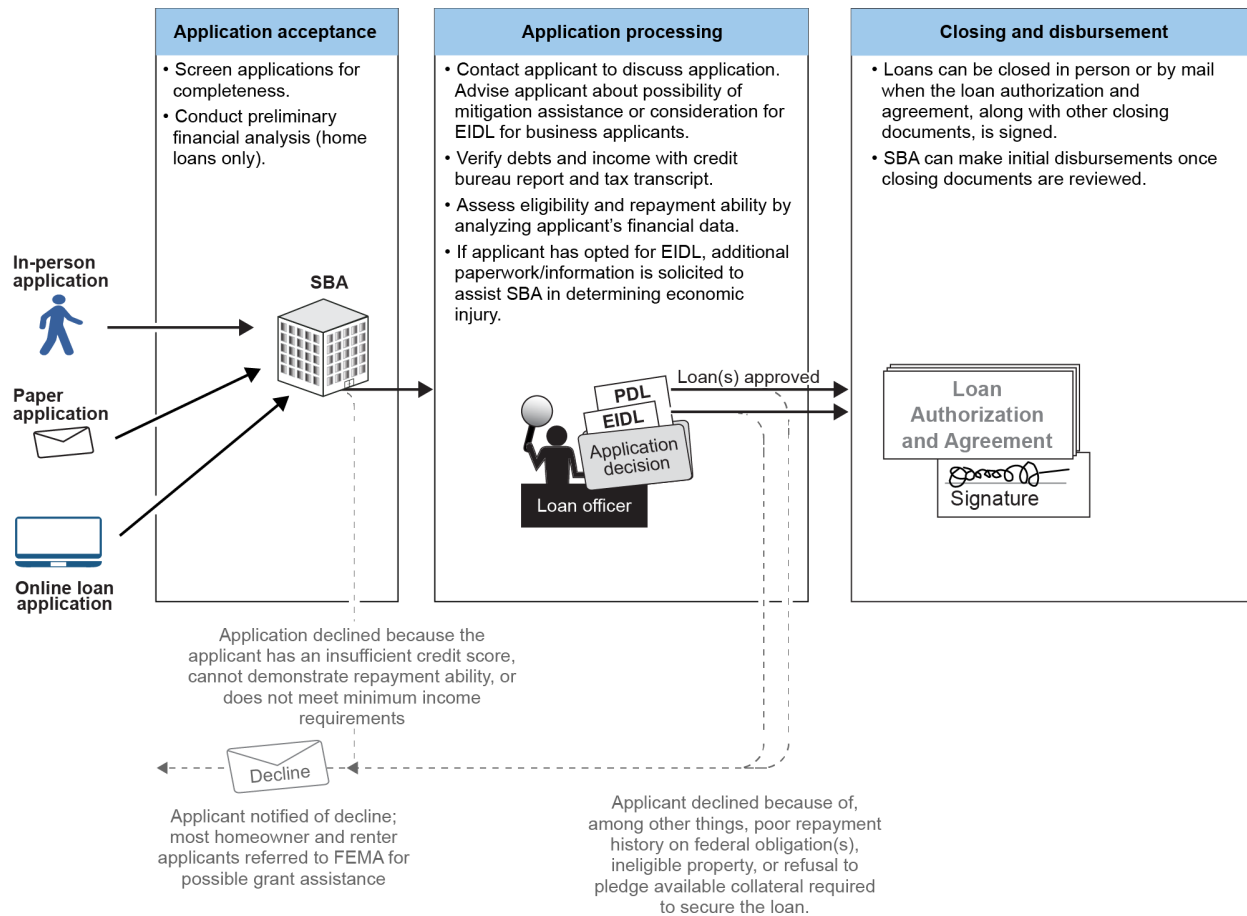
SBA administers the Disaster Loan Program through its Office of Disaster Recovery and Resilience and Office of Capital Access. The Office of Disaster Recovery and Resilience is responsible for declaring disasters and coordinating the agency's field response and outreach. Within that office, two Field Operations Centers establish staff and maintain field operations in declared disaster areas, including Disaster Recovery Centers, Business Recovery Centers, and Disaster Loan Outreach Centers.¹³ The Office of Capital Access is responsible for loan origination, processing, closing and disbursement, and servicing.

Processing disaster loan applications involves several stages, including application acceptance and application processing (see fig. 1). The first step in application processing is for SBA to accept the application. Accepted applications can be approved, declined, or withdrawn.

¹²Disaster business loans, including both physical disaster loans and EIDL loans, to the same borrower, together with its affiliates, cannot exceed up to \$2 million. 13 C.F.R. § 123.202. In certain circumstances, SBA may waive the \$2 million limit. 13 C.F.R. § 123.202. SBA also offers a Military Reservist EIDL loan in addition to the three main types of disaster loans. 13 C.F.R. § 123.5.

¹³FEMA coordinates Disaster Recovery Centers at which FEMA, SBA, volunteer groups, and other agencies answer questions and help survivors apply for federal disaster assistance. SBA operates Business Recovery Centers, which are created specifically to help business owners with recovery. SBA also may assist homeowners or renters seeking assistance at a Business Recovery Center. Other organizations and SBA's resource partners usually help staff these centers. A Disaster Loan Outreach Center is a public facility established and staffed by SBA to help disaster loan applicants obtain applications, return completed applications, complete disaster loan application forms, and close loans, and to assist them with loan modifications, reconsiderations, and late application requests. SBA is usually the only agency present at a Disaster Loan Outreach Center.

Figure 1: SBA Disaster Loan Processing



→ Advanced to next stage

← --- Declined

EIDL = Economic Injury Disaster Loan
 FEMA = Federal Emergency Management Agency
 PDL = physical disaster loan
 SBA = Small Business Administration

Source: GAO presentation of Small Business Administration (SBA) information and GAO (icons). | GAO-24-106682

SBA processes disaster loan applications through its Disaster Credit Management System. Homeowner and renter applicants who are declined for SBA disaster loan assistance are referred to FEMA for possible assistance through the component of its Individuals and Households Program that provides assistance to repair or replace a vehicle damaged by a disaster or to repair or replace personal property. According to SBA officials, applicants' unsatisfactory credit scores or inability to repay SBA loans are identified early in the application process

to allow SBA to refer them to alternative forms of assistance as quickly as possible. Officials also said that applicants with strong credit—credit scores of 625 or greater and adjusted gross income of \$50,000 or greater—are processed using an expedited method.

Federal Efforts to Improve Equitable Access to Disaster Assistance

According to FEMA, too many disaster survivors face barriers in accessing disaster assistance programs and resources to support their recovery. The federal government continues to acknowledge a need for focus on resource equity. The Biden administration recently issued two executive orders directing agencies to advance equity in federal programs:

- **Executive Order 13985.** In January 2021, the President issued an executive order that calls for the federal government to “pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality.”¹⁴ Further, the executive order directs federal agencies to assess whether underserved groups face systemic barriers in accessing opportunities and benefits available pursuant to certain programs and produce a plan for addressing any identified barriers to full and equal participation in the programs.
- **Executive Order 14091.** In February 2023, the President signed an executive order that builds on Executive Order 13985 by extending and strengthening equity-advancing requirements for agencies.¹⁵ This order requires that agencies create equity teams to coordinate and implement equity initiatives and outcomes; develop and annually submit an “equity action plan” concurrent with the budget submission process; and increase engagement with underserved communities through new tools and resources.

¹⁴Exec. Order No. 13985, 86 Fed. Reg. 7009 (Jan. 25, 2021).

¹⁵Exec. Order No. 14091, 88 Fed. Reg. 10825 (Feb. 22, 2023). The executive order defines “equity” as the consistent and systematic treatment of all individuals in a fair, just, and impartial manner, including individuals who belong to communities that often have been denied such treatment.

SBA Has Taken Steps to Address Barriers to Accessing the Disaster Loan Program but Does Not Plan to Assess Its Lending Criteria

SBA Has Taken Some Initial Steps to Address Equity Concerns and Barriers

SBA has taken initial steps to identify and address barriers to accessing the Disaster Loan Program for underserved communities. In response to the requirements of Executive Order 13985 to advance racial equity and support for underserved communities, SBA released an Equity Action Plan in April 2022.¹⁶ This plan outlines how SBA intends to reduce barriers and improve access to agency resources, including disaster assistance, for underserved communities.¹⁷ The plan also highlights SBA's commitment to advance civil rights and to improve its gathering of quantitative and qualitative data to help inform ongoing analyses. The section of the plan that addresses disaster assistance meets the requirements of Executive Order 13985, including the requirement to identify potential barriers that underserved communities and individuals face when accessing the Disaster Loan Program.¹⁸

¹⁶Executive Order 14091 requires agencies to update their equity action plans annually. SBA officials told us they submitted an updated plan to the Office of Management and Budget in September 2023.

¹⁷In the plan, SBA defines underserved communities as including persons who are Asian American, Black and African American, Hispanic and Latino, Middle Eastern, North African, other persons of color, Alaska Native, Native American, Native Hawaiian, Pacific Islander, LGBTQ+, religious minorities, military service members, military spouses, veterans, and women; tribal communities; persons with disabilities; persons living in rural or underserved urban areas; and persons otherwise adversely affected by persistent poverty or systemic inequality.

¹⁸The 2022 SBA Equity Action Plan outlines five SBA Equity Actions. Other than Equity Action #4, "Improve Access to Disaster Assistance," the actions are not relevant to the SBA Disaster Loan Program.

In the plan, SBA identifies two barriers to equitable access to the Disaster Loan Program for underserved communities: lending criteria and lack of resources for financial counseling.¹⁹

- **Lending criteria.** SBA's plan states that the lending criteria for disaster loans could make it difficult for disaster survivors in underserved communities to obtain assistance from disaster assistance programs because of financial disparities.²⁰ SBA's lending criteria for disaster loans require that applicants have a satisfactory credit history, generally showing payments to creditors as agreed unless otherwise justified. In addition, an applicant must demonstrate an ability to repay a disaster loan within the maximum term.²¹

Prior to accepting a loan application, SBA will summarily decline a homeowner or renter application if the household income is below SBA's income test-table threshold for the family size or if it determines the applicant is unlikely to have repayment ability based on the stated income and stated debts from the application.²² If summarily declined, a homeowner or renter is referred to FEMA for additional disaster assistance through a component of its Individuals and Household Program.

After SBA accepts a loan application and obtains a credit report, the agency may automatically decline homeowner, renter, and some

¹⁹In February 2020, we identified several challenges disaster survivors experienced in accessing the Disaster Loan Program after the 2017 hurricanes, which could be additional barriers for underserved communities. For example, we reported that disaster survivors found it challenging to provide required loan documentation and that they experienced frequent changes in loan officers or case managers, lack of responsiveness from SBA, and translation issues. GAO, *Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed*, [GAO-20-168](#) (Washington, D.C.: Feb. 7, 2020).

²⁰The plan cites a 2015 Consumer Financial Protection Bureau report that stated that about 20 percent of U.S. adults were credit invisible or unscorable because of a limited or older credit history, including nearly 30 percent of Black or African American and Hispanic or Latino adults. Report authors also found that almost 30 percent of consumers in low-income communities were credit invisible and an additional 15 percent had unscorable records. Percentages were notably lower in higher-income communities. See Consumer Financial Protection Bureau, *Data Point: Credit Invisibles* (Washington, D.C.: May 2015).

²¹Additional SBA disaster loan underwriting criteria apply. These include collateral requirements and other federal underwriting requirements. See, e.g., 13 C.F.R. § 123.6 and § 123.17.

²²The income test threshold is updated annually by numbered memorandum. The current income levels went into effect on February 17, 2023.

business applications because of unsatisfactory credit.²³ Although SBA officials told us there is no minimum credit score requirement for loan approval, an application will be automatically declined if the applicant has a credit score lower than 570.²⁴ This benchmark is below the benchmarks historically used by federal mortgage programs. For example, our September 2016 report on single-family home purchase loans guaranteed by the Rural Housing Service and the Federal Housing Administration described the qualifying benchmarks for these loans in fiscal years 2010–2014.²⁵ The Rural Housing Service had a borrower credit score requirement of 640 or above, and the Federal Housing Administration had one of 580 or above. Qualified borrowers with credit scores as low as 581 could obtain a Rural Housing Service-guaranteed loan if the loan was manually underwritten and the lender provided additional documentation of borrower creditworthiness. Qualified borrowers with credit scores of 500 to 579 could obtain a Federal Housing Administration-guaranteed loan if they made a down payment of 10 percent.

According to SBA officials, the policy of automatically declining applications with applicant credit scores below 570 is a long-established policy based on SBA's analysis of historic loan processing data and applicant credit scores.²⁶ SBA automatically declines applicants so they can seek assistance from FEMA faster. SBA officials also said they plan to start using the FICO Small Business Scoring Service, which is used in other SBA loan programs and assesses small business credit risk by taking into account both personal and business credit scores. In addition, homeowner and

²³Based on established criteria, SBA's system separates those applicants with unsatisfactory credit (based on the credit score) from those with satisfactory credit. For a business that operates as a sole proprietorship or is 100 percent owned by one individual, the automatic-decline process makes a determination on the creditworthiness of the owner.

²⁴All applicants declined for credit have the right to request reconsideration of declination.

²⁵GAO, *Home Mortgage Guarantees: Issues to Consider in Evaluating Opportunities to Consolidate Two Overlapping Single-Family Programs*, [GAO-16-801](#) (Washington, D.C.: Sept. 29, 2016).

²⁶SBA established automatic declination for applicants with poor credit in 2005. SBA officials told us that the cut-off credit score can be, and at times has been, adjusted.

renter applications may be automatically declined for lack of repayment ability.²⁷

Accepted loans that SBA does not automatically decline or expedite because of strong credit are subject to full processing.²⁸ SBA uses a fixed debt method to calculate applicants' ability to repay a disaster loan by determining the applicant's debt level as a percentage of gross income, or an applicant's maximum acceptable fixed debt.²⁹ For an application to be approved, SBA generally requires a maximum acceptable fixed debt of less than or equal to 75 percent.³⁰

- **Lack of resources for financial counseling.** SBA's Equity Action Plan, as well as SBA representatives, indicated that the agency does not regularly have resources in position to assist applicants who are declined and who need financial counseling. If a homeowner or renter is ineligible to receive an SBA disaster loan, SBA refers the applicant to FEMA for individual disaster assistance or other federal and local resources.

As required by Executive Order 13985, SBA identified three actions to address these barriers and advance equitable access to the Disaster Loan Program, and it has begun to implement these actions.

- **Working with resource partners.** SBA plans to work with its field and program offices to develop a systematic and formal process with SBA resource partners—Small Business Development Centers (SBDC), SCORE business mentors, Women's Business Centers, and Veterans Business Outreach Centers—to assist businesses with

²⁷SBA performs a repayment calculation using income from the application and debts obtained from a credit bureau report.

²⁸As noted earlier, according to SBA officials, applicants with strong credit scores of 625 or greater and an adjusted gross income of \$50,000 or greater are processed using an expedited method.

²⁹If the maximum debt level is not exceeded, SBA assumes that an applicant is able to pay taxes, loan debts, and other living expenses. Once the maximum debt level is exceeded, the risk of disaster loan default increases.

³⁰According to SBA officials, SBA can waive this acceptable fixed debt standard and can consider factors such as whether an applicant has historically carried a debt load of more than 75 percent, has obtained a license or certification that will result in a significant pay increase, or works in a rapidly growing field or industry.

services such as application completion and credit repair.³¹ According to SBA, these partnerships foster direct engagement with disaster survivors and will help them obtain financial and credit counseling services for activities such as preparing income statements and balance sheets, managing debt to improve credit scores, and applying for disaster loans. Further, SBA officials told us they chose to work with these entities to reach underserved communities because they share SBA's overall mission to start and grow resilient businesses and its goal to equitably support small businesses that need SBA's help.

In February 2023, SBA began a collaborative initiative with the Florida SBDC Network to assist businesses that were affected by Hurricane Ian but were automatically declined for an SBA disaster loan because of their credit history. After Hurricane Ian, 2,998 businesses that applied were automatically declined for not meeting the minimum credit score of 570. This initiative targeted 93 businesses that were within two points of the minimum credit score and 299 businesses that were within 10 points of this score. SBA's outreach team contacted these businesses by telephone and referred the 174 businesses interested in reconsideration to the SBDC Network for credit counseling and other services, such as business and strategic planning. After these credit deficiencies were addressed, an SBDC within the network discussed reconsideration for an SBA disaster loan. However, none of SBA's referrals resulted in a business submitting a reconsideration request.

In addition, in May 2023 SBA targeted businesses in Arkansas, California, Oklahoma, and Texas that did not meet the minimum credit score of 570. SBA's outreach team contacted 71 businesses that were within 10 points of the minimum credit score and 12 businesses that were within two points of this score. Twenty-nine of these businesses interested in having their loan applications reconsidered were referred to the SBDC network for credit counseling and other services, such as business and strategic planning. After these deficiencies were addressed, an SBDC within the network discussed reconsideration for an SBA disaster loan. As of early September

³¹SBDCs provide counseling and training to small businesses. SCORE business mentors offer advice on financing, human resources, and business planning. Women's Business Centers provide counseling and training and focus on women who want to start or expand their small business. Veterans Business Outreach Centers provide entrepreneurial development services such as business training, counseling, and resource partner referrals to veterans, service members, and military spouses.

2023, eight of these businesses had submitted reconsideration requests.

- **Establishing relationships with financial institutions and community groups.** SBA plans to identify and develop formal and informal relationships with financial institutions and local community support groups to arrange for additional assistance for disaster survivors. Officials told us that SBA is actively working with financial institutions and local community support groups to improve awareness of the Disaster Loan Program, particularly in historically marginalized communities. When requested at the local or state level, SBA supports community meetings, roundtables, seminars, and other outreach events led by local leaders to help answer questions about the Disaster Loan Program and explain how to access disaster assistance resources.
- **Conducting listening sessions.** SBA plans to conduct targeted outreach and “listening sessions” to obtain feedback from new and existing stakeholders on improvements to disaster loan processing. Officials told us that SBA has made progress in engaging with new and existing stakeholders through these listening sessions. They said the sessions are coordinated with SBA district offices and resource partners to ensure that there remains a continuity of relationship between community stakeholders and SBA. As of August 2023, SBA had conducted listening sessions in 10 metropolitan areas frequently impacted by natural disasters, including New Orleans, Houston, and Miami. According to SBA officials, the agency includes a wide range of stakeholders and perspectives in these sessions, including emergency management agencies, nonprofit organizations, social services agencies, and voluntary organizations active in disasters.

SBA’s Planned Review of the Disaster Loan Program Will Not Review Lending Criteria

SBA also has developed plans to evaluate how the Disaster Loan Program is assisting disaster survivors in underserved communities. As we reported in December 2021, little is known about the relationship between participation in federal disaster recovery programs (including SBA’s Disaster Loan Program) and recovery outcomes.³² We reported that federal recovery programs lack quality information to allow agencies to identify potential access barriers and disparate outcomes. Therefore, we recommended that SBA, in coordination with FEMA and the Department of Housing and Urban Development (HUD), (1) develop and

³²GAO, *Disaster Recovery: Additional Actions Needed to Identify and Address Potential Barriers*, [GAO-22-104039](#) (Washington, D.C.: Dec. 21, 2021).

implement an interagency plan to help ensure the availability and use of quality information and (2) design and establish routine processes to be used within and across federal recovery programs to address identified access barriers and disparate outcomes on an ongoing basis.

SBA agreed with these recommendations and has begun to implement them. According to SBA officials, the agency has begun communicating regularly with FEMA and HUD through biweekly operational meetings and monthly interagency coordination meetings with agency management. Through these coordination sessions, the agencies have shared information on available data and how these data can be used to identify equity concerns, including barriers to access. Each agency has committed to providing technical assistance to the other agencies to build tools that allow the use of data and data sharing to support these efforts.

SBA officials also said SBA shares loan application data with federal partners, such as FEMA and HUD, to reduce the likelihood of duplication of benefits. They noted that data-sharing agreements with FEMA should allow SBA to more quickly refer applicants who do not qualify for a disaster loan to FEMA for assistance. For example, SBA worked with FEMA to modify the income tables used at the beginning of the disaster loan application process in order to provide faster and more targeted disaster assistance to survivors. These income tables allow SBA to quickly determine which applicants should be declined loan assistance and, as a result, be immediately referred to FEMA for assistance.

SBA has taken some initial steps to collect data that may be used to improve equity in the Disaster Loan Program for underserved communities. For example, SBA released new disaster loan applications in 2022 that collect optional demographic information, including applicants' race and ethnicity. According to SBA officials, this information will increase SBA's understanding of the population applying for loans and allow SBA to focus on outcomes in specific communities that may experience additional barriers. Officials told us that SBA is not currently tracking the extent to which applicants are providing demographic information but is working with a contractor to evaluate how these data might eventually be used to inform SBA's efforts to improve equity. For example, SBA is exploring the possibility of geocoding the data and conducting a demographic analysis.

In addition to collecting demographic data, SBA is planning three efforts to evaluate the effects of the Disaster Loan Program on small businesses

and SBA's efforts to advance equity. These evaluations are in the planning stages or are ongoing.

- **Evaluation of the effects of the Disaster Loan Program.** SBA's fiscal year 2023 Annual Evaluation Plan includes a planned evaluation of the effects of the Disaster Loan Program on individuals, small businesses, and communities affected by disasters. Although the evaluation plan does not mention underserved communities specifically, it states that SBA plans to match administrative data from the Disaster Loan Program for fiscal years 2005–2020 to census data to compare businesses that received disaster loans to those that did not. SBA plans to use the evaluation to determine the effects of the program on small business outcomes and recovery. Officials told us that SBA is working with the Census Bureau to publish the results of this evaluation by the end of calendar year 2023.
- **Assessment of efforts to advance equity.** SBA's fiscal year 2024 Annual Evaluation Plan includes a planned assessment of SBA's efforts to advance equity, including the effectiveness of SBA's efforts to reduce barriers, improve access, and create an equitable entrepreneurial ecosystem. This assessment is to focus on SBA's 2022 Equity Action Plan, including the section on disaster assistance. The plan states that SBA will evaluate how it can refine key actions, goals, and objectives to meet the objective of reducing barriers and improving access to disaster assistance, counseling, training, and service programs for underserved communities. The evaluation will analyze SBA administrative data, and SBA plans to use the results to improve the design of its Equity Action Plan and develop a model for its use across the agency. According to officials, SBA is working to identify a third-party contractor to design and conduct this evaluation with the aim of completing it by the third quarter of fiscal year 2024.
- **Internal review of disaster recovery program implementation.** The Explanatory Statement to the Consolidated Appropriations Act, 2023 directs SBA to conduct an internal review of its disaster recovery program implementation practices to determine if any current practices leave out or provide unequal outcomes for communities of color and economically disadvantaged communities and, if so, develop recommendations to improve outcomes.³³ According to SBA officials, SBA has not yet formalized a plan for this internal review, including determining whether to hire contract support, because it recently made changes to the Disaster Loan Program that it wants to

³³The Explanatory Statement does not include a time frame for this review. See CONG. REC. S7819, S8492 (Dec. 20, 2022).

consider as part of the review. In June 2023, SBA issued a final rule that, effective July 31, 2023, made changes such as permanently authorizing a 1-year deferment period on disaster loan payments and increasing the maximum loan amounts for physical property damage for homeowners and renters.³⁴ SBA officials told us that SBA is planning to continue its policy of also charging zero interest on loans for 1 year.

SBA has not yet determined the full scope of work for this internal review. As noted earlier, Executive Order 14091 requires agencies to reevaluate and reissue their Equity Action Plans annually. In these annual plans, agencies are to include strategies, including new or revised policies and programs, to address identified barriers and to ensure equitable access and opportunity for underserved communities. However, SBA has no plans to assess its lending criteria, which it identified as a barrier to accessing disaster assistance in its 2022 Equity Action Plan. According to SBA officials, SBA has no plans to do so because regulations require it to have reasonable assurance that borrowers can repay the loan. However, this requirement does not preclude SBA from reassessing its lending criteria within the context of this recognized barrier. For example, SBA could consider an alternative means of evaluating homeowner and renter creditworthiness.

Further, SBA's efforts to help applicants meet its current lending criteria generally have focused on businesses rather than homeowners and renters. For example, SBA's collaborative initiative with the Florida SBDC Network assists businesses with poor credit. Yet the vast majority of SBA disaster loans (almost 80 percent) are made to homeowners and renters. In addition, SBA has not yet determined how it plans to analyze the demographic data it recently started collecting in its internal review. Considering ways to help homeowners and renters with poor credit and determining how to analyze the demographic data could help it to identify and understand differences in the lending outcomes among communities that may experience additional barriers. These steps would also provide valuable information needed to help SBA balance advancing equity in agency programs and managing the credit risks associated with providing disaster loans. Reviewing the agency's lending criteria and specifically considering homeowners and renters in its congressionally requested internal review would enable SBA to better identify any changes needed

³⁴88 Fed. Reg. 39335 (June 16, 2023), codified at 13 C.F.R. part 123.

to program practices to reduce unequal outcomes for historically underserved communities.

SBA Plans to Increase Outreach to Underserved Communities

In March 2023, SBA released a new outreach and marketing plan for the Disaster Loan Program.³⁵ The plan announced an outreach campaign for the program designed to build new and stronger relationships with federal, state, local, and tribal leadership; emergency managers; and the private sector. As part of this campaign, SBA plans to streamline messaging to all stakeholders, establish the Office of Disaster Recovery and Resilience as a primary resource for disaster preparedness, increase awareness of SBA disaster-related products and services, and use SBA's nationwide infrastructure for short- and long-term recovery. For example, SBA plans to develop and package outreach materials specifically for state, local, tribal, and emergency management personnel to help them better understand the Disaster Loan Program.

According to SBA, the agency uses census data and the Centers for Disease Control and Prevention's Social Vulnerability Index data to guide its on-the-ground outreach before and after disasters.³⁶ This outreach is conducted through SBA's Disaster Field Operations Centers and District Offices. Predisaster outreach activities include coordinating with state emergency management agencies; other federal, state, local, territorial, and tribal officials; and SBA's resource partners to promote their disaster preparedness. SBA also works with media outlets to publicize the Disaster Loan Program in communities commonly affected by natural disasters.

Postdisaster outreach activities include the establishment of Disaster Recovery Centers, Business Recovery Centers, and Disaster Loan Outreach Centers. SBA officials told us that Disaster Field Operations staff coordinate with state and local community partners to determine where to locate Business Recovery Centers based on damage assessments and accessibility to the community. SBA also operates Mobile Business Recovery Centers that allow staff to visit more communities in the disaster area. In addition, SBA translates its disaster

³⁵Small Business Administration, *Outreach and Marketing Plan* (Washington, D.C.: Mar. 6, 2023).

³⁶The Centers for Disease Control and Prevention's Social Vulnerability Index uses ACS variables to determine the vulnerability of communities by socioeconomic status and race and ethnicity. The index helps local officials identify communities that may need support before, during, or after disasters.

outreach materials into multiple languages depending on the needs of the community (see fig. 2).

Figure 2: SBA Disaster Loan Program Outreach Flyer in English and Spanish

The figure displays two versions of an SBA Disaster Loan Program Outreach Flyer. The left flyer is in English, titled "SBA Disaster Assistance Loans". It features a blue header, a central image of a damaged home under construction, and text explaining that SBA and FEMA help homeowners and renters with low-interest loans up to \$200,000 for homes and \$40,000 for personal property. It includes a "How to Get Started" section with three steps: 1. Apply for an SBA Loan, 2. The Application Process, and 3. Loan Decision. The bottom section asks "Is an SBA Disaster Assistance Loan Right for Me?" and provides the SBA logo and contact information.

The right flyer is in Spanish, titled "Préstamos de la SBA de asistencia ante desastres". It features a blue header, a central image of a damaged home under construction, and text explaining that SBA and FEMA help homeowners and renters with low-interest loans up to \$200,000 for homes and \$40,000 for personal property. It includes a "Cómo empezar" section with three steps: 1. Solicite un préstamo de la SBA, 2. El proceso de solicitud, and 3. Decisión de préstamo. The bottom section asks "¿Es un préstamo de la SBA de asistencia ante desastres adecuado para mí?" and provides the SBA logo and contact information.

Source: Small Business Administration (SBA). | GAO-24-106682

SBA also plans to increase its outreach to underserved communities specifically. SBA's fiscal year 2022–2026 Strategic Plan includes an equity measure to increase the number of outreach activities to underserved communities. According to the strategic plan, SBA intends to work with its Office of Diversity, Inclusion, and Civil Rights to enhance communication through groups such as the Council for Underserved Communities and through chambers of commerce in underserved

communities.³⁷ SBA plans to work with these organizations to develop and conduct effective communication and program implementation strategies. SBA's fiscal year 2024 congressional budget justification quantifies the equity measure in the strategic plan, with targets of 2,025 and 2,120 outreach activities to underserved communities in fiscal years 2023 and 2024, respectively. (In fiscal year 2022, SBA completed more than 1,900 such outreach activities, which is the baseline.)

In prior work, we have stressed the importance of assessing the quality of outreach activities, not just measuring their number. In February 2020, we found that SBA had not established metrics to measure the success of its outreach efforts.³⁸ Therefore, we recommended that SBA establish metrics to measure the success of its outreach efforts during the response to a disaster. SBA implemented this recommendation by establishing such metrics and incorporating them into its 2020 annual customer satisfaction survey. For example, the survey asked about the outreach efforts that the respondent was exposed to, such as in-person meetings and online media. The results showed that in-person meetings were the most popular method of outreach.

However, in its fiscal year 2024 congressional budget justification, SBA states that it is transitioning away from its current customer satisfaction methodology and plans to evaluate new customer satisfaction areas. SBA officials told us they plan to revise this methodology after the Disaster Loan Program is included in SBA's new unified lending platform. Officials stated this platform would expedite the application process and decrease applicant wait time by providing a platform for communication with SBA staff throughout the loan application process. SBA plans to use customer feedback on the new unified lending platform to develop new customer satisfaction metrics in fiscal year 2024.

³⁷The SBA Council for Underserved Communities consists of 20 stakeholders from around the country and is tasked with advising SBA on strengthening and improving its strategies to help underserved communities. We reviewed meeting minutes from two council sessions that occurred in January and October 2022. Although SBA officials from the Office of Disaster Recovery and Resilience, formerly the Office of Disaster Assistance, attended these sessions, there was no substantive policy discussion of changes needed to improve equitable access to the program.

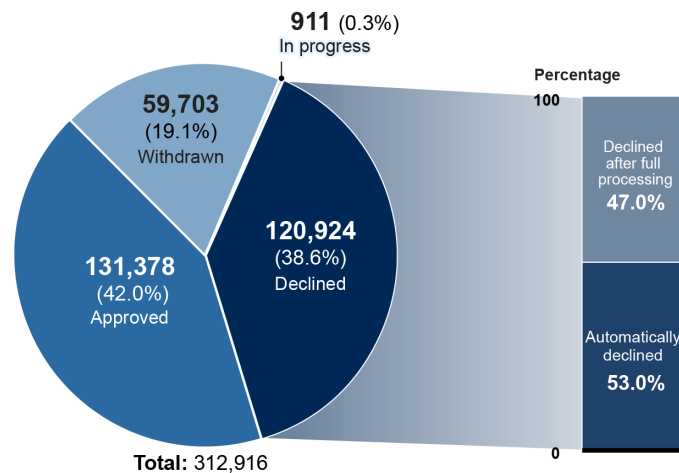
³⁸[GAO-20-168](#).

SBA Disaster Loan Outcomes Were Less Favorable in Some Historically Underserved Communities

For Selected 2018–2022 Hurricanes, SBA Declined About 40 Percent of Applications, Primarily Because of Credit History and Repayment Ability

SBA received 430,158 applications for the Disaster Loan Program from survivors in areas affected by the 13 hurricanes that caused at least \$1 billion in damage in fiscal years 2018–2022.³⁹ Of the 312,916 applications SBA accepted, SBA approved 42.0 percent and declined 38.6 percent (see fig. 3). The remaining applications were withdrawn (19.1 percent) or were in progress as of June 2023 (0.3 percent).

Figure 3: Outcomes of Applications SBA Accepted for 13 Hurricanes in Fiscal Years 2018–2022, as of June 2023



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: Automatic decline occurs at the initial stage of application processing and depends on an applicant's credit history and repayment ability. Automatic decline is intended to reject applicants who will not qualify for an SBA loan and refer them to the Federal Emergency Management Agency for additional assistance as quickly as possible.

³⁹Our analysis excludes 10,857 duplicate applications. A duplicate application occurs when an applicant submits more than one application of the same type for the same event.

As shown in table 1, the majority of the disaster loan applications that SBA accepted were from individuals and households to help repair and replace homes and personal property. As noted earlier, the three main types of SBA disaster loans are (1) home and personal property loans, (2) business physical disaster loans, and (3) Economic Injury Disaster Loans (EIDL).⁴⁰

Table 1: Disaster Loan Applications Accepted by SBA from Survivors of 13 Hurricanes in Fiscal Years 2018–2022, by Loan Type

Type of loan	Number of loans	Percentage of loans
Business physical disaster loan and Economic Injury Disaster Loan	48,437	15.48
Economic Injury Disaster Loan only	16,592	5.30
Home and personal property loan	247,887	79.22
Total	312,916	100.00

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Note: Businesses can apply for both a physical disaster loan and an Economic Injury Disaster Loan or just an Economic Injury Disaster Loan. Nonprofit loans are counted as business loans.

Acceptance. As its first step, SBA accepted 72.7 percent (or 312,916) of the total applications submitted. Most applications (95 percent) that were not accepted were summarily declined. SBA takes this action if the household income is below the minimum income threshold for the family size or after it compares the stated debts listed by the applicant with household income. A summary decline action usually results in an immediate referral to FEMA or other organizations for disaster financing. Other reasons applications were not accepted included a withdrawn application or a late application filing by the applicant.⁴¹

Approval. SBA approved 42 percent (or 131,378) of the applications it accepted. Of approved loans, 28 percent (or 36,721) were later canceled. The top three reasons for loan cancellation were decisions made by the borrower (58 percent), failure to complete and return all loan closing documents (23 percent), and adverse changes in the borrower’s economic circumstances (5 percent). SBA refers borrowers with adverse

⁴⁰SBA also offers a Military Reservist EIDL loan. 13 C.F.R. § 123.5.

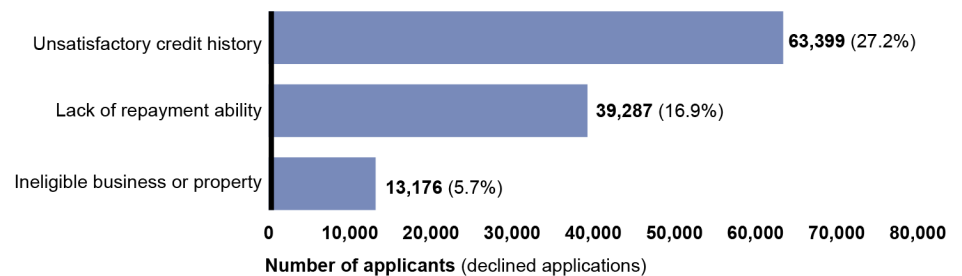
⁴¹According to the SBA Disaster Loan Program standard operating procedure, applications are considered to be late if they are not received or postmarked within 15 days of the filing deadline and the applicant does not provide written justification for missing the deadline.

changes in their economic circumstances to FEMA’s Individuals and Households Program.

Declination. In total, SBA declined 38.6 percent (or 120,924) of the applications it accepted. Of the accepted applications, 20.5 percent (or 64,036) were automatically declined because of credit score, repayment ability, or both. An automatic-decline decision means the application was declined by the system upon receipt. According to SBA officials, SBA established automatic declination for applicants with poor credit instead of moving forward with the full processing of all applications. SBA refers homeowners and renters who are automatically declined to FEMA for a potential grant and refers such businesses to other resource partners for assistance. The average credit score for accepted applications that were automatically declined for credit was 533, compared to average credit scores of 647 for all other accepted applications and 697 for all approved applications.⁴²

SBA declined 18.2 percent (or 56,888) of accepted applications after further review. As shown in figure 4, the top three reasons for declining these applications were unsatisfactory credit history (27.2 percent), lack of repayment ability (16.9 percent), and ineligible business enterprises (5.7 percent).⁴³ SBA can cite more than one reason for declining a loan application.

Figure 4: Top Reasons for SBA Declining Disaster Loan Applications from Survivors of 13 Hurricanes in Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Note: SBA can cite more than one reason for declining a loan application.

⁴²Because we did not have complete data for two hurricanes, we calculated these average credit scores using data for 11 of the 13 hurricanes included in our scope.

⁴³Ineligible businesses that were declined included agricultural enterprises, members of a fishing crew, and a property located in a Coastal Barrier Resource Area.

Withdrawal. A total of 19.1 percent (or 59,703) of accepted applications were withdrawn. Applications can be withdrawn either at the applicant's request at any time during loan processing or at SBA's discretion because of the inability to verify losses, a lack of tax transcript, or an incomplete response to a loan processing request. The top three reasons for withdrawing accepted applications were an inability to verify losses (32.0 percent), applicant reporting a change of plans (25.9 percent), and the Internal Revenue Service having no applicant record (25.2 percent).

Loan Outcomes Were Generally Less Favorable in Low-Income and Black or African American Communities and More Favorable in Asian Communities

Our analysis showed that applicants from some underserved communities—such as communities with lower median household incomes and higher percentages of Black or African American residents—often experienced worse loan outcomes, including lower approval rates, than other communities. In contrast, applicants from communities with higher percentages of Asian residents experienced more favorable loan outcomes. We used census data to analyze the socioeconomic and demographic characteristics of the census tracts in which applicants' damaged properties were located.⁴⁴ Specifically, we looked at outcomes in various communities based on the following characteristics: median household income, poverty rate, unemployment rate, percentage of residents 25 years of age or older with no high school diploma, percentage of residents with no health insurance, percentage of

⁴⁴SBA began collecting voluntary demographic information from disaster loan program applicants in April 2022. Because the scope of most of our analysis predates this period and also includes an assessment of socioeconomic characteristics, we focused on the characteristics of communities in which applicants' damaged properties were located, not the characteristics of the applicants themselves. We present the results of our analysis of applications from Puerto Rico separately in app. III because of the unique demographic composition of Puerto Rico's communities.

rent-burdened households, and percentage of the population by race and ethnicity.⁴⁵

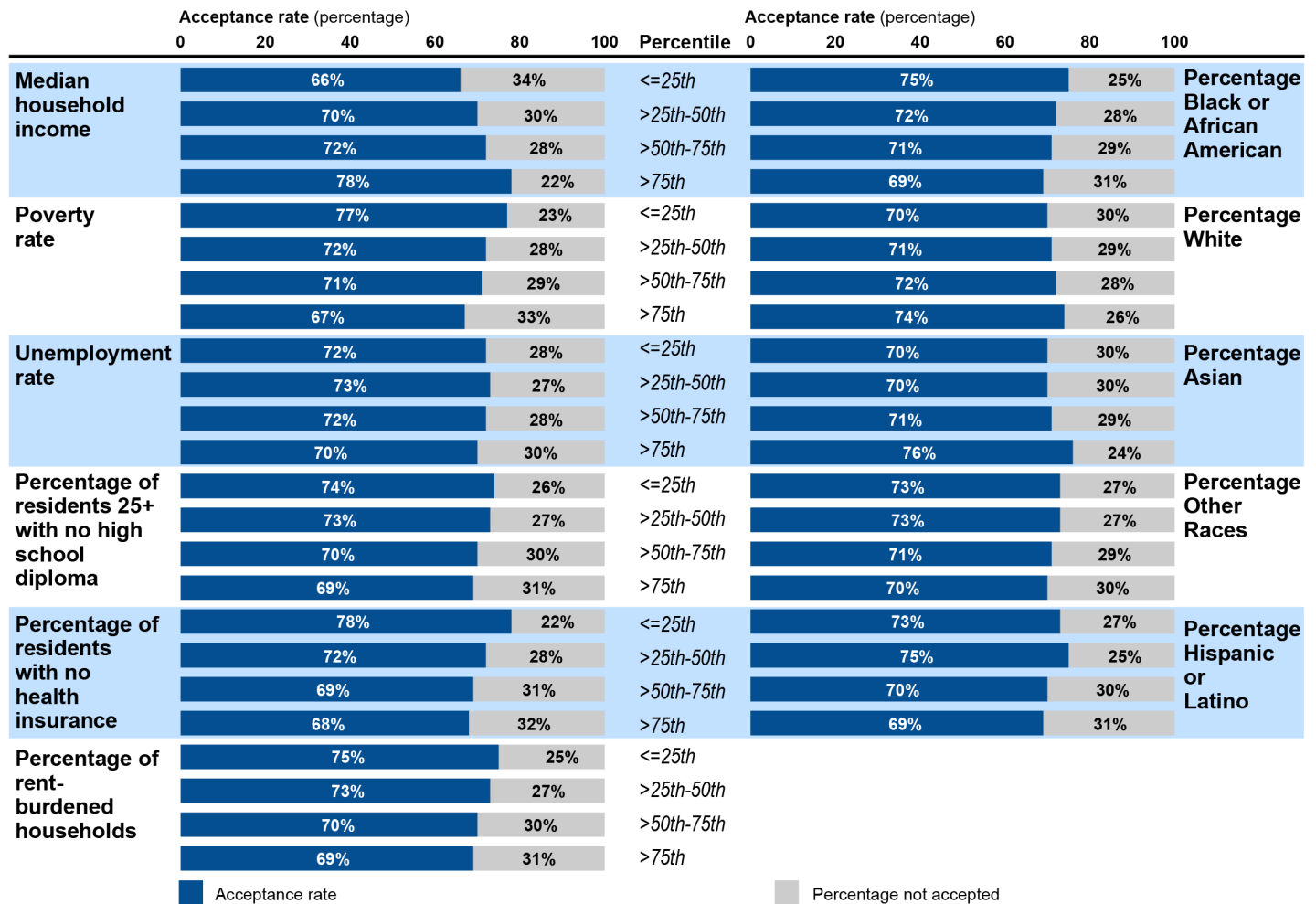
We analyzed each characteristic separately without controlling for other factors that can affect loan outcomes. For example, when we analyzed differences in race among communities, we did not control for income differences. As a result, our analysis indicates correlation between these characteristics and loan outcomes rather than causation.

Acceptance. We found that applications from communities with lower median household incomes, higher poverty rates, higher percentages of residents with no health insurance, and higher percentages of Black or African American residents were accepted at lower rates than other communities (see fig. 5).⁴⁶ According to SBA data, the primary reason for applications not being accepted was failure to meet SBA's income threshold requirement.

⁴⁵The percentage of rent-burdened households in a census tract is the percentage of households paying more than 30 percent of their income for housing. We determined which community characteristics to evaluate with the help of the Centers for Disease Control and Prevention's Social Vulnerability Index, which uses ACS variables to determine the vulnerability of communities by socioeconomic status and race and ethnicity, among other things. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). We discuss the results of our analysis only if they were statistically significant, meaning that the 95 percent confidence intervals for the top and bottom quartile for each ACS characteristic did not overlap. We used the ACS categories of White, Black or African American, and Asian to describe the race characteristic. The ACS racial categories of "American Indian and Alaska Native" and "Native Hawaiian and Other Pacific Islander" had a small sample size that would not allow us to create unique quartiles for analysis. We created a racial category "Other Races" to include American Indians, Alaska Natives, Native Hawaiians, and Other Pacific Islanders and those that fell under the "Two or More Races" category in the ACS data. See app. I for more details on our scope and methodology.

⁴⁶The acceptance rate is calculated by dividing the total number of accepted applications by the total number of applications received, excluding duplicate applications. We used the following quartiles to analyze the socioeconomic and demographic characteristics of census tracts within which applicants' damaged properties were located: less than or equal to the 25th percentile, greater than the 25th percentile to the 50th percentile, greater than the 50th percentile to the 75th percentile, and greater than the 75th percentile. See app. I for more details on our scope and methodology.

Figure 5: Average Acceptance Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for 13 Hurricanes, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the acceptance rate for each quartile by American Community Survey characteristic, we divided the total number of accepted applications by the total number of applications received, excluding duplicate applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Of the community characteristics we reviewed, applicants from the following communities had applications accepted at the lowest average rates: those in the quartiles with the lowest median household incomes (66 percent accepted), highest poverty rates (67 percent accepted),

highest percentages of residents with no health insurance (68 percent accepted), and highest percentages of Black or African American residents (69 percent accepted).⁴⁷ Applications were accepted at the highest average rates from communities with the highest median household incomes (78 percent accepted), lowest percentages of residents with no health insurance (78 percent accepted), lowest poverty rates (77 percent accepted), and highest percentages of Asian residents (76 percent accepted).

We found that acceptance rates were more favorable in communities with high percentages of Asian residents. Applicants from communities in the quartile with the highest percentages of Asian residents had a higher average acceptance rate (76 percent accepted) than applicants from communities in the quartile with the lowest percentages of Asian residents (70 percent accepted).

The largest differences in average acceptance rates between communities were as follows:

- 12 percentage points between communities with the highest and lowest median household incomes;
- 10 percentage points between communities with the highest and lowest poverty rates; and
- 6 percentage points between communities with the highest and lowest percentages of Black or African American residents.

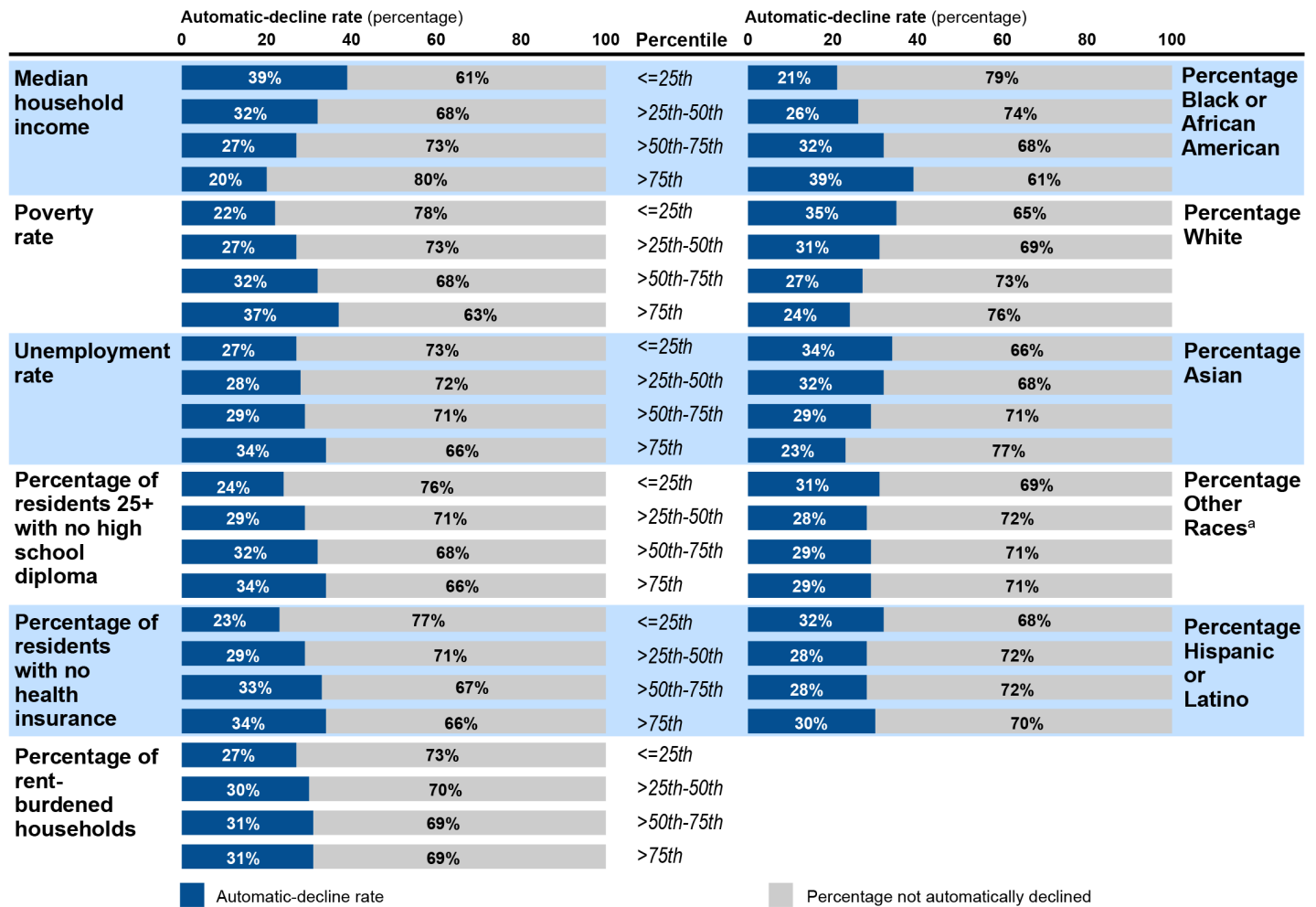
Automatic decline. We found that applications from communities with lower median household incomes, higher percentages of Black or African American residents, and higher poverty rates were automatically declined at higher rates than other communities (see fig. 6).⁴⁸ The two reasons for an application to be automatically declined were unsatisfactory credit score and lack of repayment ability. Of the community characteristics we reviewed, applications from the following communities were automatically declined at the highest average rates: those in the quartiles with the lowest median household incomes (39 percent automatically declined), highest percentages of Black or African American residents (39 percent

⁴⁷Of the ACS variables we reviewed to determine community characteristics, all were statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles did not overlap.

⁴⁸Automatic-decline rates were calculated by dividing the total number of automatically declined applications by the sum of both approved and declined applications.

automatically declined), and highest poverty rates (37 percent automatically declined).⁴⁹

Figure 6: Average Automatic-Divide Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for 13 Hurricanes, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the automatic-divide rate for each quartile by American Community Survey characteristic, we divided the total number of automatically declined applications by the sum of both approved and declined applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution

⁴⁹Of the ACS variables we reviewed to determine community characteristics, all were statistically significant except the percentage of “Other Race” residents. For the variable that was not statistically significant, the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

^aThis characteristic was not statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

We found that automatic-decline rates were more favorable in communities with high percentages of Asian and Hispanic or Latino residents. Applicants from communities in the quartile with the lowest percentages of Asian residents were automatically declined at a higher rate (34 percent automatically declined) than communities in the quartile with the highest percentages of Asian residents (23 percent automatically declined). Applicants from communities in the quartile with the lowest percentages of Hispanic or Latino residents were automatically declined at a higher rate (32 percent automatically declined) than communities in the quartile with the highest percentages of Hispanic or Latino residents (30 percent automatically declined).

The largest differences in average automatic-decline rates between communities were as follows:

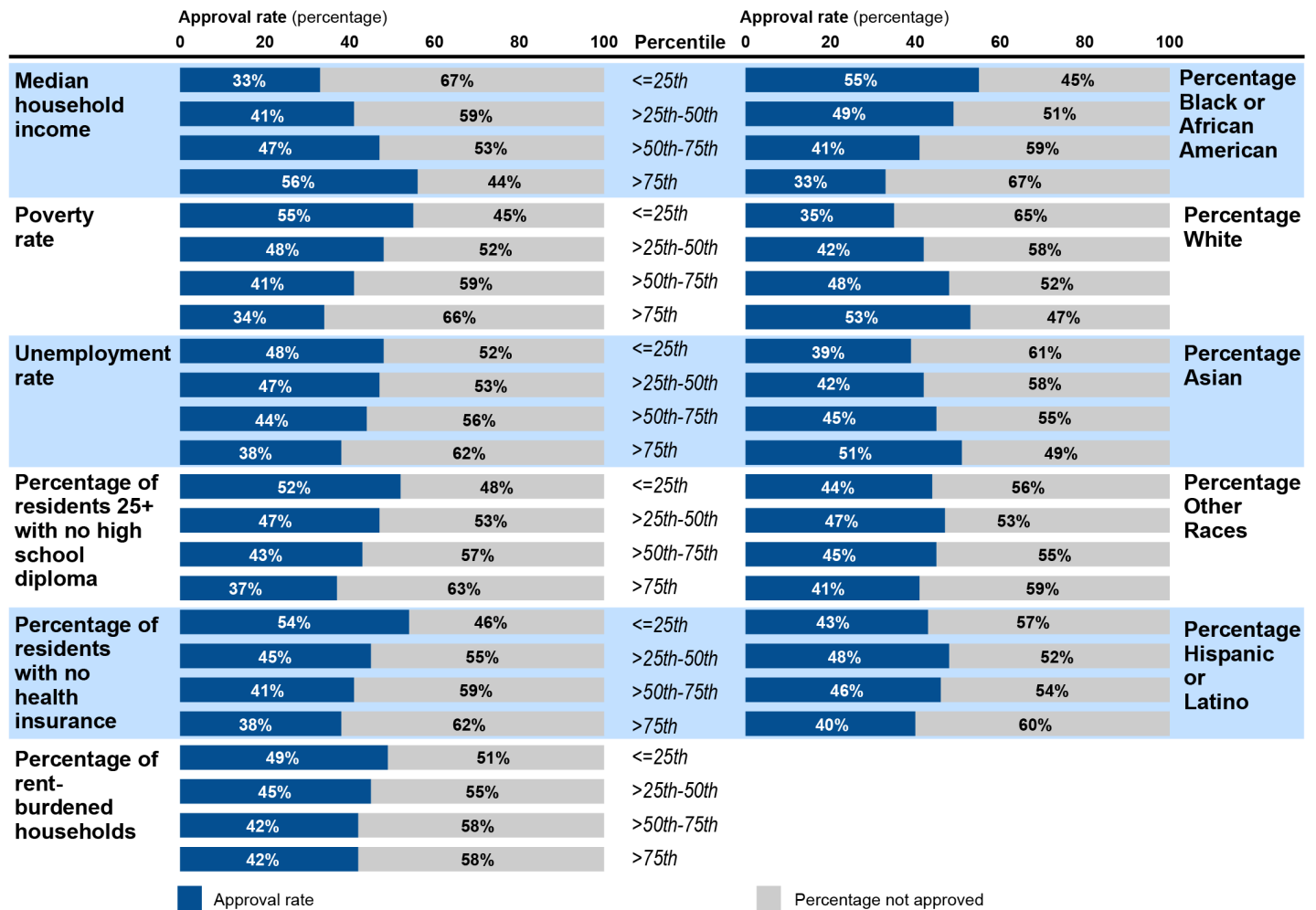
- 19 percentage points between communities with the highest and lowest median household incomes;
- 18 percentage points between communities with the highest and lowest percentages of Black or African American residents;
- 16 percentage points between communities with the highest and lowest poverty rates; and
- 11 percentage points between communities with the highest and lowest percentages of Asian residents.⁵⁰

Approval. According to our analysis, applications from communities with higher percentages of Black or African American residents, lower median household incomes, and higher poverty rates were approved at lower rates than other communities (see fig. 7).⁵¹

⁵⁰The percentage-point difference for poverty rate does not match figure 6 because of rounding.

⁵¹We calculated approval rates by dividing the total number of approved applications by the sum of both approved and declined applications. SBA uses this same calculation for approval rates.

Figure 7: Average Approval Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for 13 Hurricanes, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the approval rate for each quartile by American Community Survey characteristic, we divided the total number of approved applications by the sum of both approved and declined applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Of the community characteristics we reviewed, applicants from the following communities had the lowest approval rates: those in the quartiles with the highest percentages of Black or African American residents (33 percent approved), lowest median household incomes (33

percent approved), and highest poverty rates (34 percent approved).⁵² Applications were approved at the highest average rates from communities in quartiles with the highest median household incomes (56 percent approved), lowest poverty rates (55 percent approved), and lowest percentages of Black or African American residents (55 percent approved).

We found that approval rates were more favorable in communities with high percentages of Asian residents. Applicants from communities in the quartile with the highest percentages of Asian residents had a higher average approval rate (51 percent approved) than communities in the quartile with the lowest percentages of Asian residents (39 percent approved).

Differences in average approval rates between communities were larger than differences in average acceptance and automatic-decline rates. The largest differences in average approval rates between communities were as follows:

- 23 percentage points between communities with the highest and lowest median household incomes;
- 22 percentage points between communities with the highest and lowest percentages of Black or African American residents, and
- 21 percentage points between communities with the highest and lowest poverty rates.

Conclusions

As costly disasters continue to affect numerous American communities, SBA's Disaster Loan Program is a key federal program available to help homeowners and businesses in underserved communities recover. SBA has taken steps to evaluate equitable access to the Disaster Loan Program and set a goal to increase outreach to underserved communities.

Among these steps is SBA's congressionally requested internal review of whether its current practices for the SBA Disaster Loan Program lead to unequal outcomes for certain historically underserved communities. SBA has identified lending criteria as a barrier to accessing the program. We found that applicants from some underserved communities often

⁵²Of the ACS variables we reviewed to determine community characteristics, all were statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles did not overlap.

experienced lower approval rates than other communities. SBA's internal review is an opportunity for the agency to assess its lending criteria for both businesses and homeowners and further analyze its disaster loan data, including new demographic data, to identify and understand differences in loan outcomes. Doing so would enable SBA to better identify any changes needed to program practices to reduce unequal outcomes for historically underserved communities. It would also provide valuable information to help SBA balance advancing equity in agency programs and managing the credit risks associated with providing disaster loans.

Recommendation for Executive Action

The Administrator of SBA should ensure that the Associate Administrator of the Office of Capital Access includes in the scope of SBA's internal review of the Disaster Loan Program an assessment of its lending criteria for both businesses and homeowners and an analysis of the gaps in loan outcomes among program applicants, including those in underserved communities. (Recommendation 1)

Agency Comments

We provided a draft of this report to SBA for review and comment. In its comments, which are reproduced in appendix V, SBA agreed with our recommendation, stating that it would assess its lending criteria and evaluate any relevant gaps in loan outcomes. SBA also stated that the recommendation should be made to the Associate Administrator of the Office of Capital Access rather than the Associate Administrator of the Office of Disaster Recovery and Resilience. Accordingly, we made this change. SBA also provided technical comments, which we incorporated as appropriate.

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

If you or your staff have any questions about this report, please contact me 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. GAO staff who made key contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "William B. Shear". The signature is written in a cursive style with a large, prominent 'W' and 'S'.

William B. Shear
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) steps the Small Business Administration (SBA) has taken to improve equitable access to the Disaster Loan Program and (2) loan outcomes in and characteristics of communities in which program applicants and recipients are located.

For our first objective, we reviewed SBA policies and procedures related to the Disaster Loan Program, including the program’s standard operating procedure, the Disaster Preparedness and Recovery Plan, and the Disaster Loan Quick Reference Guide.¹ In particular, we reviewed the standard operating procedure to identify disaster loan lending criteria that affect access to the program.

We also reviewed SBA’s 2022 Equity Action Plan, which outlines how SBA plans to reduce barriers for underserved communities and improve access to assistance, including the Disaster Loan Program.² We compared the SBA Equity Action Plan against requirements for federal agencies to advance racial equity and support for underserved communities in Executive Order 13985.³ This Executive Order includes requirements to identify potential barriers that underserved communities and individuals face when accessing federal programs and actions to address these barriers.

To identify SBA’s plans to evaluate equity in the Disaster Loan Program, we reviewed SBA’s program planning documentation, including its Fiscal Year 2022–2026 Strategic Plan, Fiscal Year 2023 Annual Evaluation

¹Small Business Administration, *Standard Operating Procedure 50 30 9* (Washington, D.C.: May 31, 2018); *Disaster Preparedness and Recovery Plan* (Washington, D.C.: 2019); and *A Reference Guide to the SBA Disaster Loan Program* (Washington, D.C.: May 2015).

²Small Business Administration, *Equity Action Plan* (Washington, D.C.: Apr. 14, 2022). In the plan, SBA defines underserved communities as including persons who are Asian American, Black and African American, Hispanic and Latino, Middle Eastern, North African, other persons of color, Alaska Native, Native American, Native Hawaiian, Pacific Islander, LGBTQ+, religious minorities, military service members, military spouses, veterans, and women; tribal communities; persons with disabilities; persons living in rural or underserved urban areas; and persons otherwise adversely affected by persistent poverty or systemic inequality.

³White House, *Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, Exec. Order No. 13985, 86 Fed. Reg. 7009 (Jan. 25, 2021).

Plan, and Fiscal Year 2024 Annual Evaluation Plan.⁴ We also reviewed previous GAO reports and recommendations related to the Disaster Loan Program and equity in federal disaster assistance programs and determined the progress SBA has made in response.⁵ We interviewed SBA headquarters officials from the Office of Capital Access and the Office of Disaster Recovery and Resilience to discuss SBA's progress in implementing the Equity Action Plan and the status of its efforts to evaluate equity in the Disaster Loan Program. In addition, we compared SBA's plans to evaluate its current program practices against Executive Order 14091 and the provision in the Explanatory Statement to the Consolidated Appropriations Act, 2023 that requires the evaluation.⁶

To examine SBA's outreach on disaster assistance, we reviewed SBA's most recent Outreach and Marketing Plan and a sample of recent outreach materials that SBA distributes to communities before and after disaster events.⁷ We also interviewed SBA Field Operations Center staff to discuss SBA's efforts to improve equity in the Disaster Loan Program during disaster response efforts, including how SBA conducts outreach about the program in affected communities.

For our second objective, we focused our review on communities affected by all 17 hurricanes that occurred in fiscal years 2017–2022 that caused at least \$1 billion in damage. To identify these hurricanes, we used the National Oceanic and Atmospheric Administration's list of billion-dollar weather and climate disasters.⁸ We focused on hurricanes, as opposed to other types of disasters, because they affect large stretches of land and

⁴Small Business Administration, *Strategic Plan: Fiscal Years 2022–2026* (Washington, D.C.: Mar. 28, 2022); *FY 2023 Annual Evaluation Plan* (Washington, D.C.: Mar. 28, 2022); and *FY 2024 Annual Evaluation Plan* (Washington, D.C.: Mar. 13, 2023).

⁵GAO, *Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed*, [GAO-20-168](#) (Washington, D.C.: Feb. 7, 2020), and *Disaster Recovery: Additional Actions Needed to Identify and Address Potential Barriers*, [GAO-22-104039](#) (Washington, D.C.: Dec. 21, 2021).

⁶White House, *Executive Order on Further Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, Exec. Order No. 14091, 88 Fed. Reg. 10825 (Feb. 22, 2023). For the Explanatory Statement, see CONG. REC. S7819, S8492 (Dec. 20, 2022).

⁷Small Business Administration, *Outreach and Marketing Plan* (Washington, D.C.: Mar. 6, 2023). We requested outreach materials that SBA developed for its response to Hurricane Ian because that was the most recent hurricane included in our review.

⁸This list includes the name of the disaster, beginning and ending dates, total Consumer Price Index-adjusted cost, and number of deaths.

often affect economically, racially, and ethnically diverse communities. We selected the time frame 2017–2022 because three of the top five costliest hurricanes on record occurred in fiscal year 2017, and fiscal year 2022 was the most recent complete fiscal year at the beginning of our review.

For all 17 hurricanes, we analyzed SBA disaster loan application data as of June 23, 2023, from SBA’s Disaster Credit Management System.⁹ Applications from the four hurricanes that occurred in fiscal year 2017 accounted for 57 percent of the total number of applications. Therefore, to avoid potentially overweighting the data from fiscal year 2017, we reported the application data for the fiscal year 2017 hurricanes separately from the aggregated data for the hurricanes that occurred in fiscal years 2018–2022. For the four hurricanes in fiscal year 2017 and for the 13 hurricanes in fiscal years 2018–2022, we calculated the number of SBA disaster loan applications submitted; number of applications accepted; percentage of applications accepted, approved, declined, and withdrawn; percentage of approved loans that were canceled; and top reasons for declines, cancellations, and withdrawals.¹⁰ For 11 of the 13 hurricanes in fiscal years 2018–2022, we also calculated the average credit scores of accepted, automatically declined, and approved applications.¹¹

We assessed the reliability of the application data by reviewing relevant documentation, interviewing knowledgeable agency officials, and performing electronic testing. We determined these data were sufficiently reliable for the purpose of describing the outcomes of the disaster loan applications for our 17 hurricanes.

We used census data to analyze the socioeconomic and demographic characteristics of the census tracts in which applicants’ damaged

⁹The Disaster Credit Management System supports SBA’s disaster loan operations, beginning with the processing of disaster declaration information until final disbursement of disaster loan funds. The system allows SBA to gather information about disaster loan applicants, along with information about damage to the property or business that is used in making disaster loan application decisions.

¹⁰The four hurricanes in fiscal year 2017 were Hurricanes Matthew, Harvey, Irma, and Maria. The 13 hurricanes in fiscal years 2018–2022 were Hurricanes Florence, Michael, Dorian, Hanna, Laura, Isaias, Sally, Zeta, Delta, Ida, Nicholas, Fiona, and Ian.

¹¹We did not have complete credit score data for the other two hurricanes in fiscal years 2018–2022 and the four hurricanes in fiscal year 2017.

properties were located.¹² First, we geocoded SBA disaster loan application data using the damaged property address. Second, we matched the geocoded application data to U.S. census tracts.¹³ Third, we combined the SBA application data with data from the Census Bureau’s 2017–2021 American Community Survey (ACS) 5-year estimates, the most recent available data at the time of our review, to examine the socioeconomic and demographic characteristics of census tracts within which applicants’ damaged properties were located.¹⁴ Specifically, we analyzed SBA disaster loan outcomes across census tracts based on the following characteristics: median household income, poverty rate, unemployment rate, percentage of residents 25 years of age or older with no high school diploma, percentage of residents with no health insurance, percentage of rent-burdened households, and percentage of the population by race and ethnicity.¹⁵

¹²SBA began collecting voluntary demographic information from disaster loan program applicants in April 2022. Because the scope of our analysis predates this period and also includes an assessment of socioeconomic characteristics, we focused on the characteristics of communities in which applicants’ damaged properties were located, not the characteristics of the applicants themselves.

¹³Census tracts are small, relatively permanent statistical subdivisions of a county or statistically equivalent entity that generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people.

¹⁴The American Community Survey uses a series of monthly samples to produce annually updated estimates for different geographic units, including census tracts, across the U.S. The survey collects data on the economic, social, housing, and demographic characteristics of communities at various geographic levels, including metropolitan areas, states, and counties.

¹⁵The percentage of rent-burdened households in a census tract is the percentage of households paying more than 30 percent of their income for housing. We determined which community characteristics to evaluate with the help of the Centers for Disease Control and Prevention’s Social Vulnerability Index, which uses ACS characteristics to determine the vulnerability of communities by socioeconomic status and race and ethnicity, among other things. We used the ACS categories of White, Black or African American, and Asian to describe the race characteristic. The ACS racial categories of “American Indian and Alaska Native” and “Native Hawaiian and Other Pacific Islander” had a small sample size that would not allow us to create unique quartiles for analysis. We created a racial category “Other Races” to include American Indians, Alaska Natives, Native Hawaiians, and Other Pacific Islanders and those that fell under the “Two or More Races” category in the ACS data.

We examined the relationship between SBA loan outcomes and each characteristic identified above.¹⁶ To identify the hurricane disaster area, we restricted our analysis to applications within a state where there was a Federal Emergency Management Agency disaster declaration. Any census tracts within those states from which SBA received applications were included in our analysis.

We divided each census-tract characteristic into four percentiles, or quartiles, for the set of census tracts within the hurricane disaster area.¹⁷ For those census tracts, we then calculated the average for each SBA loan outcome by quartile. For example, to examine the relationship between loan approval rates and poverty rates, we calculated the average loan approval rates for census tracts with (1) poverty rates less than or equal to the 25th percentile, (2) poverty rates greater than the 25th percentile to the 50th percentile, (3) poverty rates greater than the 50th percentile to the 75th percentile, and (4) poverty rates greater than the 75th percentile.

We then compared the average loan outcomes across quartiles to determine whether there was a statistically significant difference between the 75th percentile and 25th percentile of each characteristic at the 5 percent level.

Our analysis has limitations, and our results should be interpreted accordingly. Differences reported in loan outcomes by community characteristic are uncontrolled and do not account for other factors or characteristics across communities. Our analysis does not identify the causes of any difference between loan outcomes for communities with different characteristics. Further, the results are not generalizable to other hurricanes, geographic areas, or time periods.

¹⁶To calculate acceptance rates, we divided the number of accepted applications by the number of total applications received, excluding duplicate applications. To calculate automatic-decline rates, we divided the total number of automatically declined applications by the sum of both approved and declined applications. To calculate approval rates, we divided the number of approved applications by the sum of approved and declined applications. This is the same way that SBA calculates approval rates.

¹⁷We ordered each census tract characteristic from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of a characteristic fall into the lowest quartile (or \leq 25th percentile) while those with the highest prevalence fall into the highest quartile (or $>$ 75th percentile).

To assess the reliability of the census data, we reviewed technical information and determined the data were sufficiently reliable for the purpose of reporting on socioeconomic and demographic characteristics at the census tract-level.

We reported results on the relationship between SBA loan outcomes and census tract characteristics for the hurricanes that occurred in fiscal year 2017 separately from hurricanes that occurred in fiscal years 2018–2022.¹⁸ Because of Puerto Rico’s unique demographic composition compared to the contiguous United States, we conducted a separate analysis of census tracts affected by the four hurricanes that struck Puerto Rico in fiscal years 2017–2022 for which SBA received disaster loan applications. Because ACS data are not collected for the U.S. Virgin Islands, we were unable to analyze the characteristics of the communities in this territory that were affected by the 2017 hurricanes.

We conducted this performance audit from March 2023 to November 2023 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.

¹⁸As mentioned, applications from the four hurricanes that occurred in fiscal year 2017 accounted for 57 percent of the total number of applications.

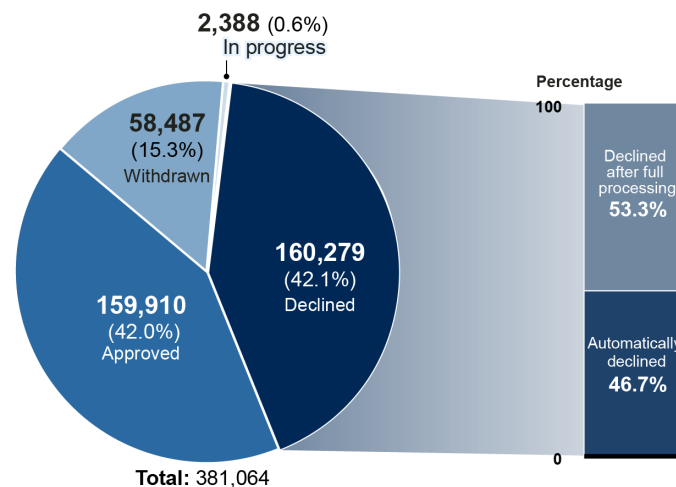
Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

This appendix covers applications for the Small Business Administration’s (SBA) Disaster Loan Program from survivors of four hurricanes in fiscal year 2017.¹ We present our analysis of these applications separately from the applications for the 13 hurricanes included in our review that occurred in fiscal years 2018–2022 because the large number of applications SBA received for these hurricanes may obscure outcomes in the 2018–2022 period.

Outcomes of Loan Applications

SBA received 578,122 applications for the Disaster Loan Program from survivors in areas affected by the four hurricanes that caused at least \$1 billion in damage in fiscal year 2017.² Of the 381,064 applications SBA accepted, SBA approved 42.0 percent and declined 42.1 percent (see fig. 8). The remaining applications were withdrawn (15.3 percent) or were in progress (0.6 percent) as of June 2023.

Figure 8: Outcomes of Applications SBA Accepted for the Disaster Loan Program for Four Hurricanes in Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: The four hurricanes were all of the hurricanes that caused more than \$1 billion in damage in fiscal year 2017. Automatic decline occurs at the initial stage of application processing and depends on an applicant’s credit history and repayment ability. Automatic decline is intended to reject applicants who will not qualify for an SBA loan and refer them to the Federal Emergency Management Agency for additional assistance as quickly as possible.

¹We selected these hurricanes because they were all of the hurricanes that occurred in fiscal year 2017 that caused at least \$1 billion in damage. See app. I for more information on our scope and methodology.

²Our analysis excludes one duplicate application. A duplicate application occurs when an applicant submits more than one application of the same type for the same event.

Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

As shown in table 2, the majority of the disaster loan applications that SBA accepted were from individuals and households to help repair and replace homes and personal property. The three main types of SBA disaster loans are (1) home and personal property loans, (2) business physical disaster loans, and (3) Economic Injury Disaster Loans (EIDL).³

Table 2: Disaster Loan Applications Accepted by SBA from Survivors of Four Hurricanes in Fiscal Year 2017, by Loan Type

Type of loan	Number of loans	Percentage of loans
Business physical disaster loans and Economic Injury Disaster Loans	50,980	13.38
Economic Injury Disaster Loans only	9,308	2.44
Home and personal property loans	320,776	84.18
Total	381,064	100.00

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Note: The four hurricanes were all of the hurricanes that caused at least \$1 billion in damage in fiscal year 2017. Businesses can apply for both a physical disaster loan and an Economic Injury Disaster Loan or just an Economic Injury Disaster Loan. Nonprofit loans are counted as business loans.

Acceptance. As its first step, SBA accepted 65.9 percent (or 381,064) of the total applications submitted. Many of the applications that were not accepted (56 percent) were summarily declined. The agency takes this action if the household income is below the minimum income threshold for the family size or after it compares the stated debts listed by the applicant with household income. A summary decline action usually results in an immediate referral to the Federal Emergency Management Agency (FEMA) or other organizations for disaster financing.

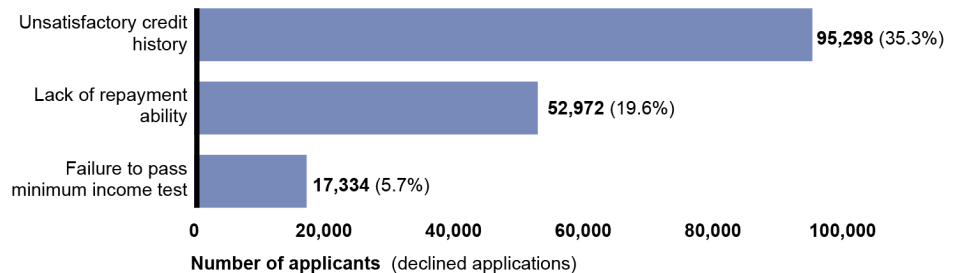
Approval. SBA approved 42.0 percent (or 159,910) of the applications it accepted. Of approved loans, 18.7 percent (or 29,828) were later canceled. The top three reasons for loan cancellation were decisions made by the borrower (48 percent), failure to complete and return all loan closing documents (19 percent), and adverse changes in the borrower's economic circumstances (18 percent). SBA refers borrowers with adverse changes in their economic circumstances to FEMA's Individuals and Households Program.

³SBA also offers a Military Reservist EIDL loan in addition to the three main types of disaster loans. 13 C.F.R. § 123.5.

Declination. In total, SBA declined 42.1 (or 160,279) percent of the applications it accepted. Of the accepted applications, 19.7 percent (or 74,904) were automatically declined because of credit score, repayment ability, or both. An automatic-decline decision means the application was declined by the system upon receipt. According to SBA officials, SBA established automatic declination for applicants with poor credit instead of moving forward with the full processing of all applications.⁴ SBA refers homeowners and renters who are automatically declined to FEMA for a potential grant and refers such businesses to other resource partners for assistance.

SBA declined 22.4 percent (or 85,375) of accepted applications after further review. As shown in figure 9, the top three reasons for declining these applications were unsatisfactory credit history (35 percent), lack of repayment ability (20 percent), and failure to pass a minimum income test (6 percent). SBA can cite more than one reason for declining a loan application.

Figure 9: Top Reasons for SBA Declining Disaster Loan Applications from Survivors of Four Hurricanes in Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Note: The four hurricanes were all of the hurricanes that caused at least \$1 billion in damage in fiscal year 2017. SBA can cite more than one reason for declining a loan application.

Withdrawal. A total of 15.3 percent (or 58,487) of accepted applications were withdrawn. Applications can be withdrawn either at the applicant’s request at any time during loan processing or at SBA’s discretion because of the inability to verify losses, a lack of a tax transcript, or an incomplete response to a loan processing request. The top three reasons for withdrawing accepted applications were the applicant reporting a

⁴According to SBA officials, applicants with strong credit also do not go through full processing. Specifically, applicants with credit scores of 625 or greater and an adjusted gross income of \$50,000 or greater are processed using an expedited method.

change of plans (38 percent), inability to verify losses (29 percent), or the requested information not being provided (17 percent).

Socioeconomic and Demographic Characteristics of Communities in Which Applicants Were Located

Our analysis showed that applicants from some underserved communities—such as communities with lower median household incomes and higher percentages of Black or African American residents—often experienced worse loan outcomes, including lower approval rates, than other communities. We used census data to analyze the socioeconomic and demographic characteristics of the census tracts in which applicants’ damaged properties were located.⁵ Specifically, we looked at outcomes in various communities based on the following characteristics: median household income, poverty rate, unemployment rate, percentage of residents 25 years of age or older with no high school diploma, percentage of residents with no health insurance, percentage of rent-burdened households, and percentage of the population by race and ethnicity.⁶

Acceptance. We found that applications from communities with lower percentages of residents with no high school diploma, higher median household incomes, and higher percentages of Asian residents were

⁵SBA began collecting voluntary demographic information from disaster loan program applicants in April 2022. Because the scope of most of our analysis predates this period and also includes an assessment of socioeconomic characteristics, we focused on the characteristics of communities in which applicants’ damaged properties were located, not the characteristics of the applicants themselves. We present the results of our analysis of applications from Puerto Rico separately in app. III because of the unique demographic composition of Puerto Rico’s communities. Although SBA accepted applications from the U.S. Virgin Islands, the American Community Survey does not collect data within the territory. As a result, we were unable to analyze the characteristics of the communities in this territory that were affected by the 2017 hurricanes.

⁶The percentage of rent-burdened households in a census tract is the percentage of households paying more than 30 percent of their income for housing. We identified which community characteristics to evaluate with the help of the Centers for Disease Control and Prevention’s Social Vulnerability Index, which uses American Community Survey (ACS) variables to determine the vulnerability of communities by socioeconomic status and race and ethnicity, among other things. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). We discuss the results of our analysis only if they were statistically significant, meaning that the 95 percent confidence intervals for the top and bottom quartile for each ACS characteristic did not overlap. We used the ACS categories of White, Black or African American, and Asian to describe the race characteristic. The ACS racial categories of “American Indian and Alaska Native” and “Native Hawaiian and Other Pacific Islanders” had a small sample size that would not allow us to create quartiles for analysis. We created a racial category “Other Races” to include American Indians, Alaska Natives, Native Hawaiians, and Other Pacific Islanders and those that fell under the “Two or More Races” category in ACS data. See app. I for more details on our scope and methodology.

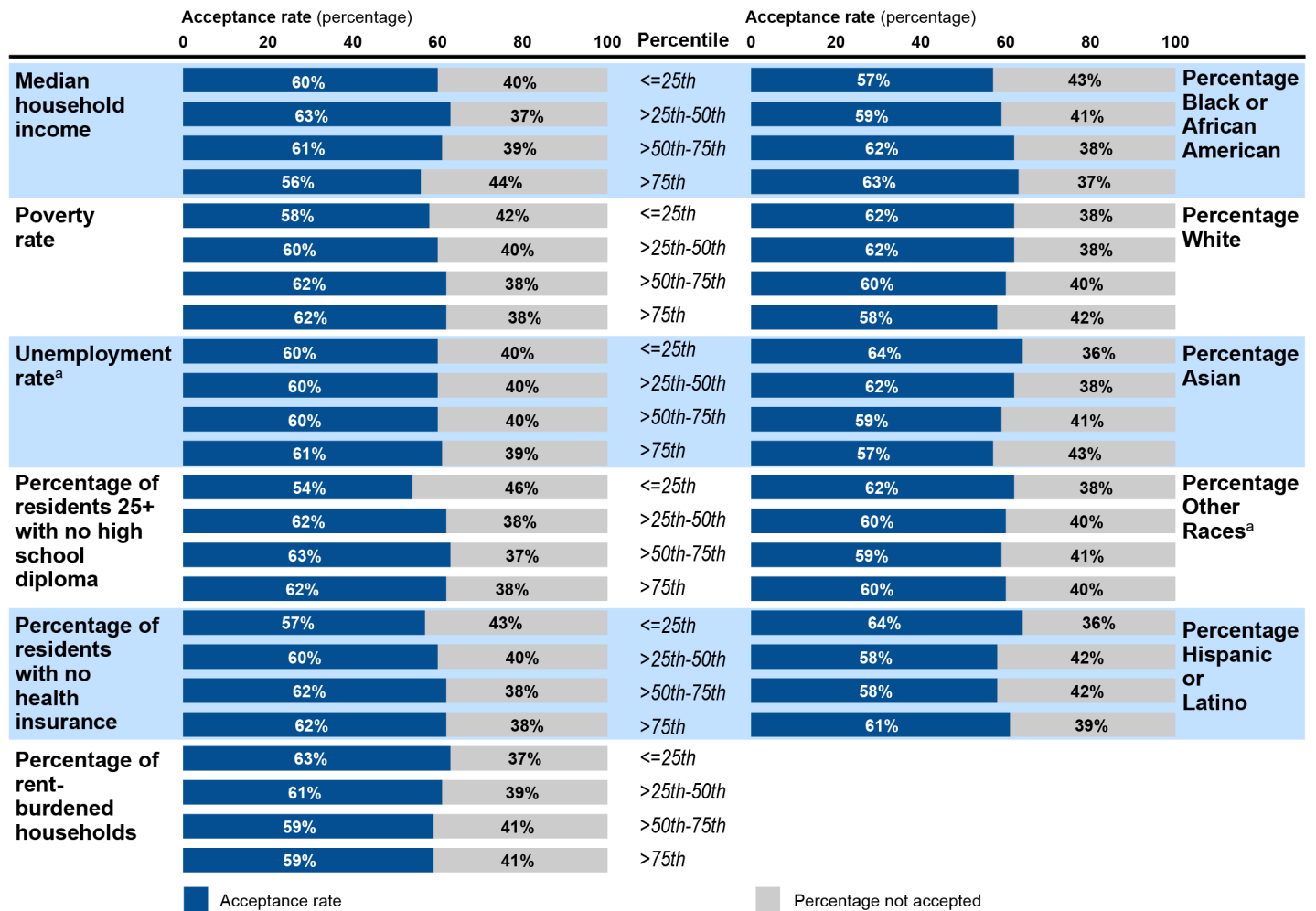
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accepted at lower rates than other communities (see fig. 10).⁷ These results differ from our findings for the 13 hurricanes in fiscal years 2018–2022. For those hurricanes, we found that applications from communities with lower median household incomes, higher poverty rates, higher percentages of residents with no health insurance, and higher percentages of Black or African American residents were accepted at lower rates than other communities.

⁷Acceptance rate is calculated by dividing the total number of accepted applications by the total number of applications received, excluding duplicate applications. We used the following quartiles to analyze the socioeconomic and demographic characteristics of communities affected by the hurricanes in our review: less than or equal to the 25th percentile, greater than the 25th percentile to the 50th percentile, greater than the 50th percentile to the 75th percentile, and greater than the 75th percentile.

Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

Figure 10: Average Acceptance Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Four Hurricanes, Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: The four hurricanes were all of the hurricanes that caused at least \$1 billion in damage in fiscal year 2017. To calculate the acceptance rate for each quartile by American Community Survey characteristic, we divided the total number of accepted applications by the total number of applications received, excluding duplicate applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

^aThis characteristic was not statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

Of the community characteristics we reviewed, applicants from the following communities had applications accepted at the lowest average rates: those with the lowest percentages of residents 25 years of age or older with no high school diploma (54 percent accepted), highest median household incomes (56 percent accepted), and highest percentages of Asian residents (57 percent accepted).⁸ Applications were accepted at the highest average rates from communities in quartiles with the lowest percentages of Hispanic or Latino residents (64 percent accepted), lowest percentages of Asian residents (64 percent accepted), and highest percentages of Black or African American residents (63 percent accepted).

The largest differences in average acceptance rates between communities were as follows:

- 8 percentage points between communities with the highest and lowest percentages of residents 25 years of age or older with no high school diploma;
- 7 percentage points between communities with the highest and lowest percentages of Asian residents; and
- 6 percentage points between communities with the highest and lowest percentages of Black or African American residents.

Automatic decline. We found that applications from communities with lower median household incomes, higher poverty rates, and higher percentages of residents with no health insurance were automatically declined at higher rates than other communities (see fig. 11).⁹ The two reasons for an application to be automatically declined were unsatisfactory credit score and lack of repayment ability. Of the community characteristics we reviewed, applicants from the following communities were automatically declined at the highest average rates: those in quartiles with the lowest median household incomes (38 percent automatically declined), highest percentages of residents with no health

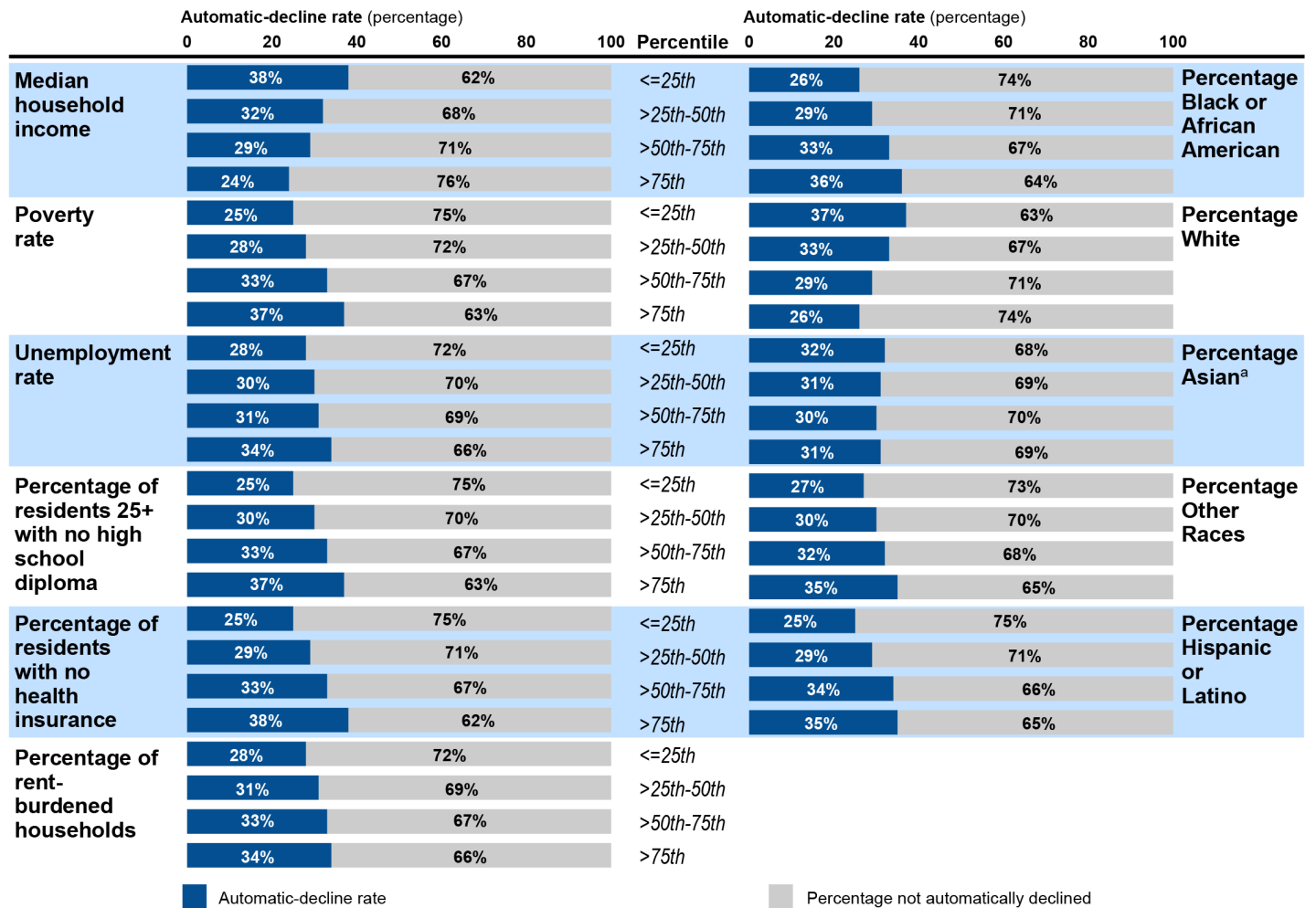
⁸Of the ACS variables we reviewed to determine community characteristics, all were statistically significant except unemployment rate and "Other Races." For those variables that were not statistically significant, the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

⁹Automatic-decline rates were calculated by dividing the total number of automatically declined applications by the sum of both approved and declined applications.

Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

insurance (38 percent automatically declined), and highest poverty rates (37 percent automatically declined).¹⁰

Figure 11: Average Automatic-Decline Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Four Hurricanes, Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: The four hurricanes were all of the hurricanes that caused at least \$1 billion in damage in fiscal year 2017. To calculate the automatic-decline rate for each quartile by American Community Survey characteristic, we divided the total number of automatically declined applications by the sum of both approved and declined applications. For each characteristic, we ordered the census tracts

¹⁰Of the ACS variables we reviewed to determine community characteristics, all were statistically significant except the percentage of Asian residents. For the variable that was not statistically significant, the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or ≤ 25 th percentile), while those with the highest prevalence fall into the highest quartile (or > 75 th percentile).

^aThis characteristic was not statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

The largest differences in average automatic-decline rates between communities were as follows:

- 14 percentage points between communities with the highest and lowest median household incomes;
- 13 percentage points between communities with the highest and lowest percentages of residents with no health insurance;
- 12 percentage points between communities with the highest and lowest poverty rates; and
- 12 percentage points between communities with the highest and lowest percentages of White residents.¹¹

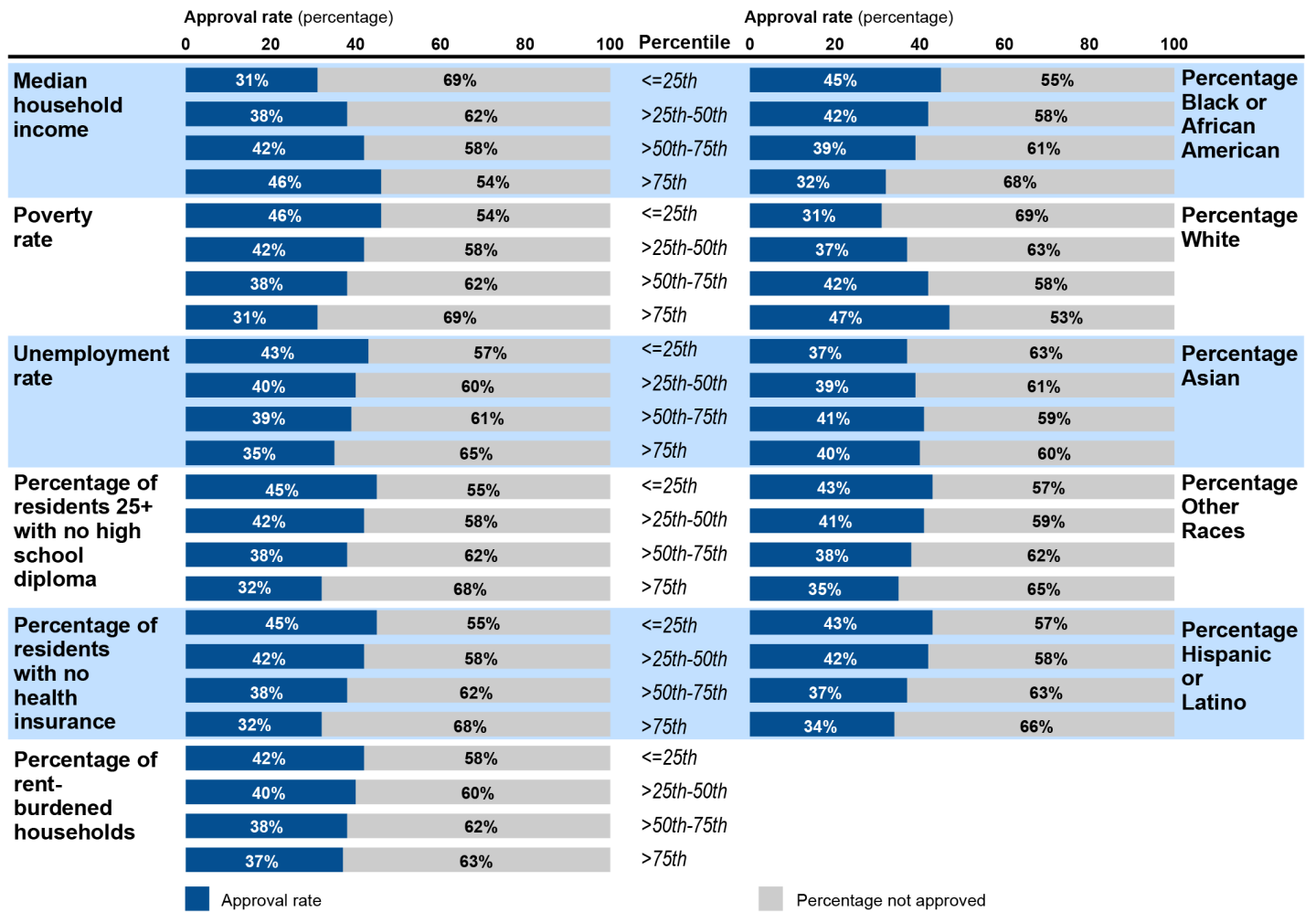
Approval. According to our analysis, applications from communities with lower median household incomes, higher poverty rates, and higher percentages of Black or African American residents were approved at lower rates (see fig. 12).¹²

¹¹The percentage-point difference for percentage of White residents does not match figure 11 because of rounding.

¹²We calculated approval rates by dividing the total number of approved applications by the sum of both approved and declined applications. SBA uses this same calculation for approval rates.

Appendix II: Disaster Loan Outcomes in and Characteristics of Communities Affected by Four Hurricanes in Fiscal Year 2017

Figure 12: Average Approval Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Four Hurricanes, Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: The four hurricanes were all of the hurricanes that caused at least \$1 billion in damage in fiscal year 2017. To calculate the approval rate for each quartile by American Community Survey characteristic, we divided the total number of approved applications by the sum of both approved and declined applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Of the community characteristics we reviewed, applicants from the following communities had applications approved at the lowest average rates: those in the quartiles with the lowest median household incomes (31 percent approved), highest poverty rates (31 percent approved), and

highest percentages of Black or African American residents (32 percent approved).¹³ Applications were approved at the highest average rates from communities in quartiles with the highest median household incomes (46 percent approved), lowest poverty rates (46 percent approved), and lowest percentages of residents 25 years of age or older with no high school diploma (45 percent).

We found that approval rates were more favorable in communities with high percentages of Asian residents. Applicants from communities in the quartile with the highest percentages of Asian residents (40 percent approved) were approved at higher rates than applicants from communities in the quartile with the lowest percentages of Asian residents (37 percent approved).

The largest differences in average approval rates between communities were as follows:

- 16 percentage points between communities with the highest and lowest percentages of White residents;
- 15 percentage points between communities with the highest and lowest median household incomes;
- 15 percentage points between communities with the highest and lowest poverty rates; and
- 14 percentage points between communities with the highest and lowest percentages of residents 25 years of age or older with no high school diploma.¹⁴

¹³Of the ACS variables we reviewed to determine community characteristics, all were statistically significant, meaning the 95 percent confidence intervals for the highest and lowest quartiles did not overlap.

¹⁴The percentage-point difference for percentage of residents 25 years of age or older with no high school diploma does not match figure 12 because of rounding.

Appendix III: Socioeconomic and Demographic Characteristics of Communities in Puerto Rico Affected by Four Hurricanes in Fiscal Years 2017–2022

Survivors of four hurricanes that affected communities in Puerto Rico in fiscal years 2017–2022 applied for Small Business Administration (SBA) disaster loans.¹ We used census data to analyze the socioeconomic and demographic characteristics of the Puerto Rican census tracts in which these applicants' damaged properties were located.² Specifically, we examined the relationship between disaster loan outcomes—acceptance rates, automatic-decline rates, and approval rates—and seven characteristics. These characteristics were median household income, poverty rate, unemployment rate, percentage of residents 25 years of age and older with no high school diploma, percentage of residents with no health insurance, percentage of rent-burdened households, and percentage of population by race.

We were not able to evaluate loan outcomes for Hispanic or Latino residents. Because 98 percent of Puerto Rico's population is Hispanic or Latino, it was not possible to separate the data into quartiles as we did for the other characteristics.³ We also were not able to evaluate loan outcomes for Asian residents. Because there were so few Asian residents in Puerto Rico, it was not possible to separate the data into quartiles as we did for the other characteristics. We did not report on many of the community characteristics we analyzed because the results were not statistically significant.⁴ In addition, we conducted separate analyses for

¹For our review, we selected all 17 hurricanes that occurred in fiscal years 2017–2022 that caused at least \$1 billion in damage. Four of these 17 hurricanes affected Puerto Rico and led to applications for SBA's Disaster Loan Program. These four hurricanes were Hurricanes Irma and Maria in fiscal year 2017, Hurricane Isaias in fiscal year 2020, and Hurricane Fiona in fiscal year 2022. We analyzed the socioeconomic and demographic characteristics of communities in Puerto Rico separately because of the unique demographic composition of Puerto Rico compared to the contiguous United States. See app. I for more details on our scope and methodology.

²According to the Census Bureau, Puerto Rico has 945 census tracts. In the raw American Community Survey data we evaluated for the purposes of this report, the census tracts are numbered, as in the data for the contiguous United States; however, they also include the title of the municipality or "municipio." A municipio is a large, aggregate unit of geography similar to a U.S. county, and Puerto Rico has 78 of them.

³We ordered each census tract characteristic from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of a characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile). For example, census tracts with the lowest poverty rates are ranked in the lowest quartile (or <=25th percentile).

⁴For the purpose of this report, we determined statistical significance using 95 percent confidence intervals. A characteristic was deemed to be statistically insignificant if the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

fiscal year 2017 and fiscal years 2018–2022 because the large number of applications SBA received for the fiscal year 2017 hurricanes may obscure outcomes in the 2018–2022 period.

Acceptance Rate

The acceptance rate is the percentage of submitted applications that SBA accepted for review.⁵ Most applications that were not accepted were summarily declined. SBA takes this action if the household income is below the minimum income threshold for the family size or after it compares the stated debts listed by the applicant with household income.⁶

Acceptance Rates for Two Hurricanes in Fiscal Year 2017

For the two fiscal year 2017 hurricanes, only three characteristics—(1) median household income, (2) poverty rate, and (3) percentage of residents 25 years of age and older with no high school diploma—had average acceptance rates that were statistically significant.⁷ Out of these community characteristics, applicants from census tracts with the highest poverty rates and lowest median household incomes had the lowest average acceptance rates (see fig. 13).

- **Median household income.** The average acceptance rate for applicants in census tracts with the lowest median household incomes was 60 percent. There was a difference of 10 percentage points in the average acceptance rate between communities with the highest and lowest median household incomes.⁸
- **Poverty rate.** The average acceptance rate for applicants in census tracts with the highest poverty rates was 60 percent. There was a difference of 10 percentage points in the average acceptance rate between communities with the highest and lowest poverty rates.
- **No high school diploma.** The average acceptance rate for applicants in census tracts with the highest percentages of residents

⁵Acceptance rate is calculated by dividing the total number of accepted applications by the total number of applications received, excluding duplicate applications.

⁶A summary decline action usually results in an immediate referral to the Federal Emergency Management Agency or other organizations for disaster financing.

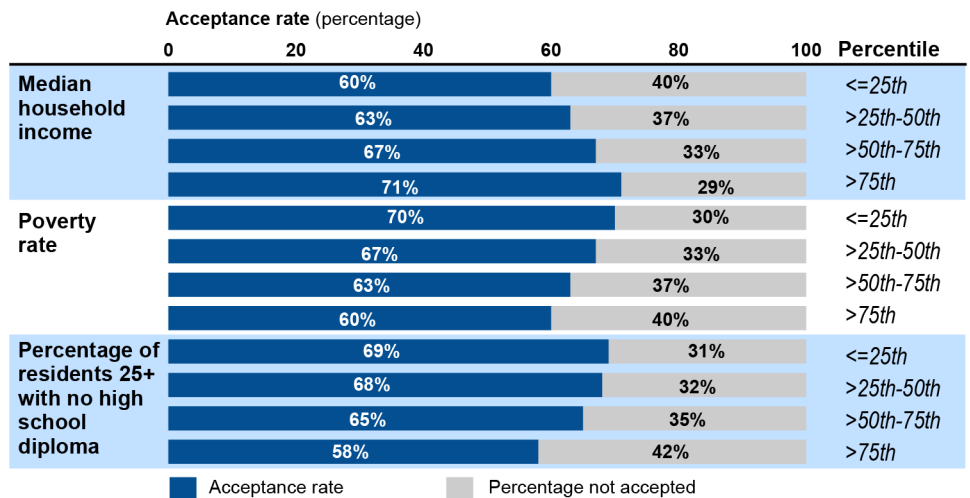
⁷The following characteristics were not statistically significant: unemployment rate; percentage of rent-burdened households; percentage of residents with no health insurance; and percentage of White, Black or African American, and Other Race residents. For the purpose of this report, we determined statistical significance using 95 percent confidence intervals. A characteristic was deemed to be statistically insignificant if the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

⁸The percentage-point difference does not match figure 13 because of rounding.

Appendix III: Socioeconomic and Demographic Characteristics of Communities in Puerto Rico Affected by Four Hurricanes in Fiscal Years 2017–2022

25 years of age or older with no high school diploma was 58 percent. There was a difference of 12 percentage points in the average acceptance rate between communities with the highest and lowest percentages of residents 25 years of age or older with no high school diploma.⁹

Figure 13: Average Acceptance Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Two Hurricanes That Affected Puerto Rico, Fiscal Year 2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the acceptance rate for each quartile by American Community Survey characteristic, we divided the total number of accepted applications by the total number of applications received, excluding duplicate applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Acceptance Rates for Two Hurricanes in Fiscal Years 2018–2022

For the two hurricanes that affected Puerto Rico in fiscal years 2018–2022, we found that applications from communities with higher percentages of residents with no high school diploma, higher poverty rates, and lower median household incomes were accepted at lower rates than other communities (see fig. 14).¹⁰

⁹The percentage-point difference does not match figure 13 because of rounding.

¹⁰The following characteristics were not statistically significant: percentage of rent-burdened households and residents with no health insurance. This means the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

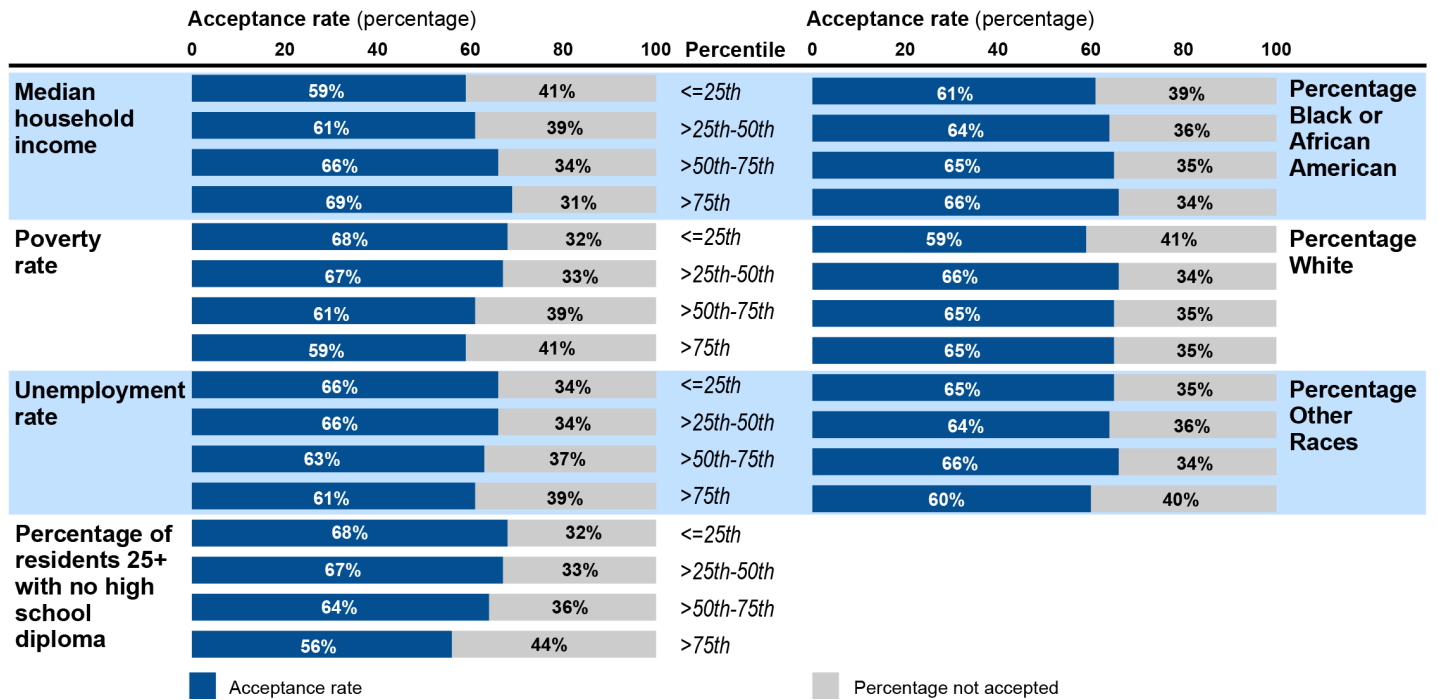
- **No high school diploma.** The average acceptance rate for applicants in census tracts with the highest percentages of residents 25 years of age or older with no high school diploma was 56 percent. There was a difference of 12 percentage points in the average acceptance rate between communities with the highest and lowest percentages of residents 25 years of age or older with no high school diploma.
- **Poverty rate.** The average acceptance rate for applicants in census tracts with the highest poverty rates was 59 percent. There was a difference of 10 percentage points in the average acceptance rate between communities with the highest and lowest poverty rates.¹¹
- **Median household income.** The average acceptance rate for applicants in census tracts with the lowest median household incomes was 59 percent. There was a difference of 9 percentage points in the average acceptance rate between communities with the highest and lowest median household incomes.¹²

¹¹The percentage-point difference does not match figure 14 because of rounding.

¹²The percentage-point difference does not match figure 14 because of rounding.

Appendix III: Socioeconomic and Demographic Characteristics of Communities in Puerto Rico Affected by Four Hurricanes in Fiscal Years 2017–2022

Figure 14: Average Acceptance Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Two Hurricanes That Affected Puerto Rico, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the acceptance rate for each quartile by American Community Survey characteristic, we divided the total number of accepted applications by the total number of applications received, excluding duplicate applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or ≤25th percentile) while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Automatic-Decline Rate

An automatic-decline decision means the application was declined by the system upon receipt.¹³ According to SBA officials, SBA established automatic declination for applicants with poor credit instead of moving forward with the full processing of all applications.¹⁴ SBA refers homeowners and renters who are automatically declined to the Federal Emergency Management Agency for a potential grant and refers such

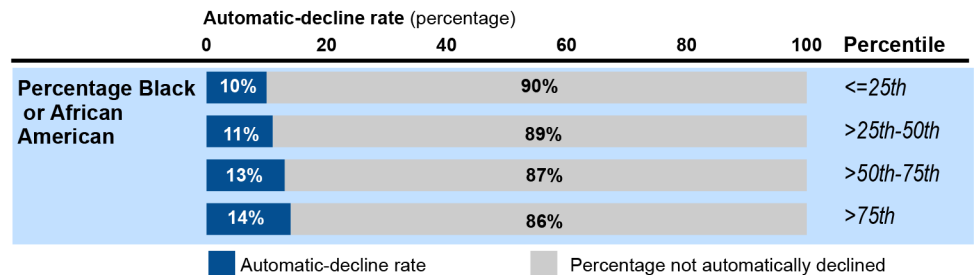
¹³Automatic-decline rates were calculated by dividing the total number of automatically declined applications by the sum of both approved and declined applications.

¹⁴According to SBA officials, applicants with strong credit also do not go through full processing. Specifically, applicants with credit scores of 625 or greater and an adjusted gross income of \$50,000 or greater are processed using an expedited method.

businesses to other resource partners for assistance. The two reasons for an application to be automatically declined were unsatisfactory credit score and lack of repayment ability.

Our analysis of automatic-decline rates by community characteristic was not statistically significant for the two hurricanes that affected Puerto Rico in fiscal year 2017, meaning we cannot report on any differences. For the three hurricanes that affected Puerto Rico in fiscal years 2018–2022, only percentage of Black or African American residents had average automatic-decline rates that were statistically significant (see fig. 15).¹⁵ The average automatic-decline rate for applications from census tracts with the highest percentages of Black or African American residents was 14 percent. There was a difference of 4 percentage points in the average automatic-decline rate between communities with the highest and lowest percentages of Black or African American residents.

Figure 15: Average Automatic-Decline Rates for SBA Disaster Loans by Percentage of Black or African American Residents for Three Hurricanes that Affected Puerto Rico, Fiscal Years 2018–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the automatic-decline rate for each quartile, we divided the total number of automatically declined applications by the sum of both approved and declined applications. We ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

Approval Rate

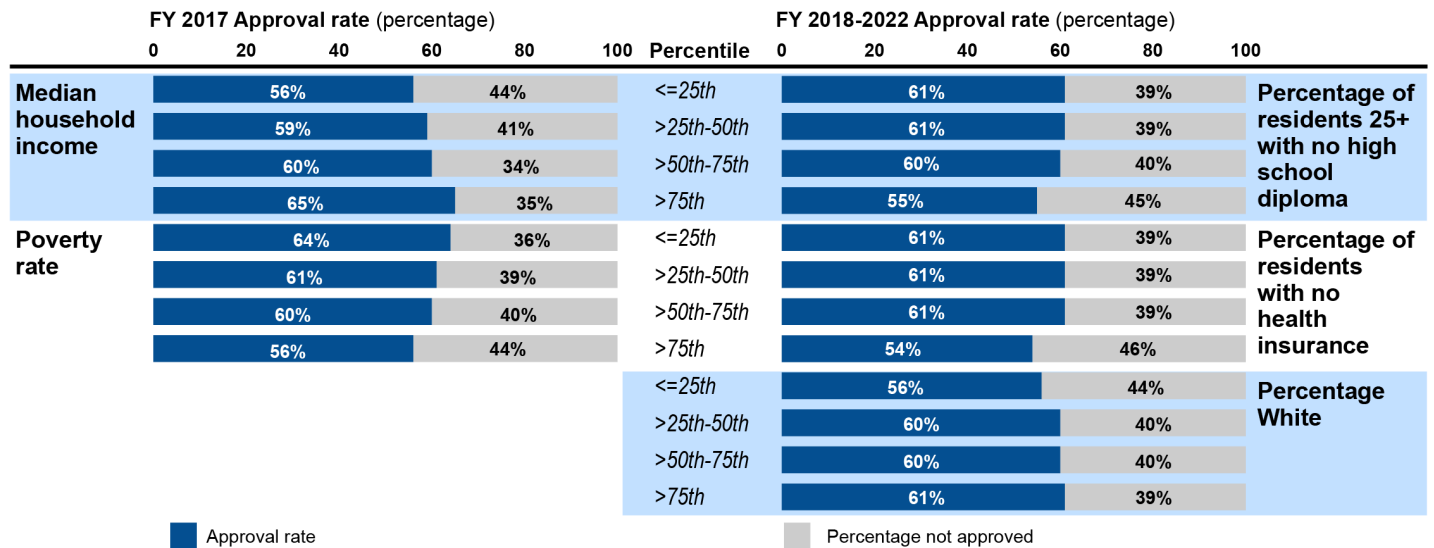
For the two fiscal year 2017 hurricanes that affected Puerto Rico, only two characteristics—(1) median household income and (2) poverty rate—

¹⁵The following characteristics were not statistically significant: poverty rate; median household income; percentage of residents 25 years of age or older with no high school diploma; unemployment rate; percentage of rent-burdened households; percentage of residents with no health insurance; and percentage of White and Other Race residents. This means the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

Appendix III: Socioeconomic and Demographic Characteristics of Communities in Puerto Rico Affected by Four Hurricanes in Fiscal Years 2017–2022

had average approval rates that were statistically significant (see fig. 16).¹⁶ For the two hurricanes that affected Puerto Rico in fiscal years 2018–2022, only three characteristics—(1) percentage of residents with no health insurance, (2) percentage of residents 25 years of age and older with no high school diploma, and (3) percentage of White residents—had approval rates that were statistically significant.¹⁷

Figure 16: Average Approval Rates for SBA Disaster Loans by Socioeconomic and Demographic Characteristic for Four Hurricanes That Affected Puerto Rico, Fiscal Years 2017–2022



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Notes: To calculate the approval rate for each quartile by American Community Survey characteristic, we divided the total number of approved applications by the sum of both approved and declined applications, excluding duplicate applications. For each characteristic, we ordered the census tracts within the hurricane disaster areas from the lowest to the highest value. We then divided the ordered distribution into four equally sized groups (quartiles). The census tracts with the lowest prevalence of that characteristic fall into the lowest quartile (or <=25th percentile), while those with the highest prevalence fall into the highest quartile (or >75th percentile).

¹⁶The following characteristics were not statistically significant: unemployment rate; percentage of rent-burdened households; percentage of residents with no health insurance; percentage of residents 25 years of age and older with no high school diploma; and percentage of White, Black or African American, and Other Race residents. This means the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

¹⁷The following characteristics were not statistically significant: poverty rate; median household income; unemployment rate; percentage of rent-burdened households; and percentage of Black or African American and Other Race residents. This means the 95 percent confidence intervals for the highest and lowest quartiles overlapped.

Approval Rates for Two
Hurricanes in Fiscal Year
2017

Median household income. The average approval rate for applications from census tracts with the lowest median household incomes was 56 percent. There was a difference of 9 percentage points in the average approval rate between communities with the highest and lowest median household incomes.

Poverty rate. The average approval rate for applications from census tracts with the highest poverty rates was 56 percent. There was a difference of 8 percentage points in the average approval rate between communities with the highest and lowest poverty rates.

Approval Rates for Two
Hurricanes in Fiscal Years
2018–2022

No health insurance. The average approval rate for applications from census tracts with the highest percentages of residents with no health insurance was 54 percent. There was a difference of 7 percentage points in the average approval rate between communities with the highest and lowest percentage of residents with no health insurance.

No high school diploma. The average approval rate for applications from census tracts with the highest percentages of residents 25 years of age and older with no high school diploma was 55 percent. There was a difference of 5 percentage points in the average approval rate between communities with the highest and lowest percentages of residents 25 years of age and older with no high school diploma.¹⁸

White. The average approval rate for applications from census tracts with the lowest percentages of White residents was 56 percent. There was a difference of 5 percentage points in the average approval rate between communities with the highest and lowest percentages of White residents.

¹⁸The percentage-point difference does not match figure 16 because of rounding.

Appendix IV: Outcomes of Disaster Loan Applications the Small Business Administration Accepted for 17 Hurricanes in Fiscal Years 2017–2022

This appendix presents the outcomes of disaster loan applications that the Small Business Administration accepted for 17 hurricanes that occurred in fiscal years 2017–2022.¹ We analyzed the number and percentage of accepted applications that were approved, automatically declined, and declined after full processing (see table 3).

Table 3: Outcomes of Disaster Loan Applications SBA Accepted in Fiscal Years 2017–2022, by Hurricane

Hurricane	Date	Number of applications approved (percentage)	Number of applications automatically declined (percentage)	Number of applications declined after full processing (percentage)
Matthew	October 2016	8,190 (46.5%)	6,605 (37.5%)	2,835 (16.2%)
Harvey	August 2017	46,339 (46.6%)	26,911 (27.0%)	26,272 (26.4%)
Irma	September 2017	43,849 (41.8%)	27,278 (26.0%)	33,854 (32.3%)
Maria	September 2017	61,532 (62.8%)	24,581 (25.1%)	11,943 (12.2%)
Florence	September 2018	11,874 (54.2%)	4,015 (18.3%)	6,027 (27.5%)
Michael	October 2018	32,528 (58.1%)	10,113 (18.1%)	13,337 (23.8%)
Dorian	August 2019	153 (29%)	142 (26.9%)	233 (44.1%)
Hanna	July 2020	197 (46.2%)	112 (26.3%)	117 (27.5%)
Laura	August 2020	10,709 (49.1%)	4,213 (19.3%)	6,900 (31.6%)
Isaias	August 2020	128 (39.9%)	81 (25.2%)	112 (34.9%)
Sally	September 2020	5,867 (46.6%)	2,412 (19.2%)	4,309 (34.2%)
Zeta	October 2020	2,097 (41.9%)	1,100 (22.0%)	1,809 (36.1%)
Delta	October 2020	1,248 (35.7%)	613 (17.5%)	1,633 (46.7%)
Ida	August 2021	38,072 (51.6%)	17,481 (23.7%)	18,207 (24.7%)
Nicholas	September 2021	0 (0.0%)	11 (55.0%)	9 (45.5%)

¹We selected these hurricanes because they were all of the hurricanes that occurred in fiscal years 2017–2022 that caused at least \$1 billion in damage. See app. I for more information on our scope and methodology.

**Appendix IV: Outcomes of Disaster Loan
Applications the Small Business
Administration Accepted for 17 Hurricanes in
Fiscal Years 2017–2022**

Hurricane	Date	Number of applications approved (percentage)	Number of applications automatically declined (percentage)	Number of applications declined after full processing (percentage)
Fiona	September 2022	3,645 (48.7%)	2,983 (39.9%)	856 (11.4%)
Ian	September 2022	24,886 (50.6%)	13,700 (27.9%)	10,602 (21.6%)

Source: GAO analysis of Small Business Administration (SBA) data. | GAO-24-106682

Note: To calculate approval rates, we divided the number of approved applications by the sum of approved and declined applications. To calculate automatic-decline rates, we divided the total number of automatically declined applications by the sum of both approved and declined applications. To calculate decline rates after full processing, we divided the number of declined applications by the sum of approved and declined applications.

Appendix V: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

November 8, 2023

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 the opportunity to comment on the Government Accountability Office (GAO) draft report title, "Disaster Loan Program SBA should Include Key Issues in Its Review of How the Program Affects Underserved Communities" (24-106682).

The draft report examines (1) the steps SBA has taken to improve equitable access to the Disaster Loan Program and (2) loan outcomes in and characteristics of communities in which program applicants and recipients are located. GAO also reviewed SBA policies and procedures, interviewed SBA officials, analyzed disaster application data for all 17 hurricanes in fiscal years 2017 – 2022 that caused at least \$1 billion in damage, and used census data to determine the demographic and socioeconomic characteristics of communities in which applicants were located.

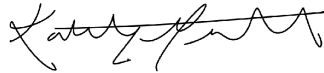
GAO's draft report highlights the initial steps SBA has taken to improve access to the Disaster Loan Program for historically underserved communities (such as those with high poverty rates or high percentages of Black or African American, Asian, and Hispanic or Latino residents), and highlights SBA's plans to conduct a congressionally requested review to evaluate outcomes for certain underserved communities.

SBA is asking that the following recommendation be reassigned to the Office of Capital Access: "The Administrator of SBA should ensure that the Associate Administrator of the Office of Disaster Recovery and Resilience includes in the scope of its internal review of the Disaster Loan Program an assessment of its lending criteria for both businesses and homeowners and an analysis of the gaps in loan outcomes among program applicants, including those in underserved communities."

**Appendix V: Comments from the Small
Business Administration**

SBA agrees with this recommendation. SBA will continue to perform an assessment of its lending criteria and evaluate any relevant gaps in loan outcomes, including those in underserved communities."

Sincerely,

A handwritten signature in black ink, appearing to read "Kathryn Frost". The signature is fluid and cursive, with a prominent initial "K" and a long, sweeping underline.

Kathryn Frost
Associate Administrator (Acting)
Office of Capital Access

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, Paige Smith (Assistant Director), Laura Gibbons (Analyst in Charge), Lauren Capitini, Chelsea Carter, Lorraine Ettaro, Courtney LaFountain, Jennifer Schwartz, Sara Shore, and Jena Sinkfield made key contributions to this report.

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