ECONOMIC INJURY DISASTER LOAN PROGRAM

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

What GAO Found

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

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

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

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

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

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

- In January 2021, GAO recommended that SBA conduct data analytics
  across the EIDL portfolio to detect potentially ineligible and fraudulent
  applications (GAO-21-265). SBA did not agree or disagree with this
  recommendation. However, in May 2021, SBA officials stated the agency
  was in the process of developing analysis to apply certain fraud
  indicators to all application data.

- In March 2021, GAO recommended that SBA (1) implement a
  comprehensive oversight plan to identify and respond to risks in the EIDL
  program, (2) conduct and document a fraud risk assessment, and (3)
  develop a strategy to address the program’s assessed fraud risks on a
  continuous basis (GAO-21-387). SBA agreed with all three
  recommendations. In May 2021, SBA officials stated that the agency had
  started to assess fraud risk for the program.

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