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From Short-Term Relief to Long-Term Hardship: Some Small Businesses Struggle with Debt Burdens from COVID-19 Economic Injury Disaster Loans

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EXECUTIVE SUMMARY

Many small businesses turned to government assistance to weather the most challenging days of the COVID-19 pandemic following its onset in March 2020. One of the largest government programs administered through the US Small Business Administration (SBA) during the pandemic was the COVID-19 Economic Injury Disaster Loan (EIDL) program, which provided $380 billion in loans to struggling small businesses. However, many firms that stayed in business through the end of the pandemic with outstanding COVID-19 EIDL loans (hereafter referred to as "EIDL loans") have elevated amounts of outstanding debt and are in more precarious financial condition than those without outstanding EIDL loans. Data from the Federal Reserve's 2023 Small Business Credit Survey (SBCS) show that, compared to firms without outstanding EIDL debt, those with it were more likely to experience challenges making payments on debt during the year leading up to the survey and were less likely to be profitable. Additionally, compared to firms without EIDL debt, those with it were less likely to be fully approved for new financing and were more likely to attribute denials to excessive debt levels. While SBCS data suggest that the performance of firms with outstanding EIDL debt lags that of firms without it, it is unclear from SBCS data if businesses with outstanding EIDL loans would have had better outcomes had they chosen not to borrow from the EIDL program.

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OVERVIEW

Following congressional approval, the SBA expanded its EIDL program—originally intended to support small businesses affected by a natural disaster—to include those impacted by COVID-19.[1] From March 2020 until its closure in 2022, the SBA's COVID-19 EIDL program extended capital to small businesses to help them cope with the effects of the pandemic. At the time of the program's closure in 2022, the SBA had approved around 4 million EIDL loans, averaging approximately $96,000 per loan.[2] As of late 2023, over $300 billion in EIDL balances remained outstanding.[3] Some details of EIDL loans are shown in Table 1.

During the pandemic, the EIDL program was among the largest sources of aid from the federal government to small businesses, second only to the $800 billion Paycheck Protection Program (PPP), also administered by the SBA.[4] One important difference between the PPP and EIDL programs is that PPP loans are eligible for forgiveness, while EIDL loans are not. Instead, EIDL loans function more like traditional loans. Many businesses sought funds from both programs; data from the Federal Reserve's SBCS show that, during the pandemic, around half of the businesses that applied for PPP loans also applied for EIDL loans.

EIDL loans provided support to businesses forced to navigate an uncertain environment following the onset of the pandemic. Most businesses experienced sharp declines in revenues and disruptions in supply chains. In the 2020 SBCS, fielded around six months after the onset of the pandemic, a quarter of the respondents said they had temporarily closed at some point because of the pandemic, while more than half said they had reduced their operations at some point. Some open-ended comments in the SBCS highlighted the importance of the capital extended to businesses through the EIDL program, as many respondents mentioned that EIDL loans had helped them stay in business during the most challenging days of the pandemic. However, many respondents also noted the substantial burden associated with repaying these loans. A healthcare and education business owner approaching retirement age said,

> *"While we were relieved to be approved for and receive funding from the SBA [COVID-19 EIDL loan], it will take me until I am 90 years old to repay. And the repayment will be a challenge. But there was no other choice if we were to stay in business."*

Using employer-firm data from the SBCS, including new data from a special-topic module in the 2023 SBCS, this publication explores the financial condition of firms with outstanding EIDL debt and highlights the types of firms most likely to have had outstanding EIDL balances as of late 2023. The 2023 SBCS shows that firms with EIDL debt were more likely to have higher amounts of overall debt outstanding and less likely to be profitable. It is unclear from SBCS data if EIDL loans affect the financial conditions of firms differently than other types of debt or if EIDL loans are simply correlated with elevated levels of debt that ultimately impact firms. Additionally, more research is needed to identify if having outstanding EIDL debt led to worse financial conditions for firms that stayed in business through the pandemic or if firms in worse financial conditions than their counterparts were more likely to pursue these loans.

TABLE 1. EIDL LOAN CHARACTERISTICS

Loan term	30 years
Interest rate	3.75% for for-profit businesses; 2.75% for private nonprofit organizations
Maximum loan amount	$500,000 for loans approved before October 8, 2021; $2 million for those approved on or after October 8, 2021
Collateral	Required for loans greater than $25,000

Source: US SBA

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

2 *Author's calculations from SBA data. See* https://www.sba.gov/sites/default/files/2022-04/COVID-19%20EIDL%20TA%20STA_04282022_Public-508.pdf.

3 *Author's calculations from the SBA's loan program performance dataset. See* https://www.sba.gov/document/report-small-business-administration-loan-program-performance.

4 *The PPP opened in early April 2020 and closed in mid-2021. PPP loans were forgivable if used for designated purposes such as paying mortgage or rent obligations, payroll costs, or interest from prepandemic debt. Firms that met certain conditions were eligible to apply for a second PPP loan. If not forgiven, PPP loans carried an interest rate of 1%, with maturities of 2–5 years. For more on the SBA's PPP, see* https://www.sba.gov/funding-programs/loans/covid-19-relief-options/paycheck-protection-program.

FIGURE 1. SHARE OF 2023 RESPONDENTS BY EIDL DEBT STATUS

Source: 2023 SBCS, Federal Reserve Banks.

Financial Characteristics of Firms with Outstanding EIDL Loans

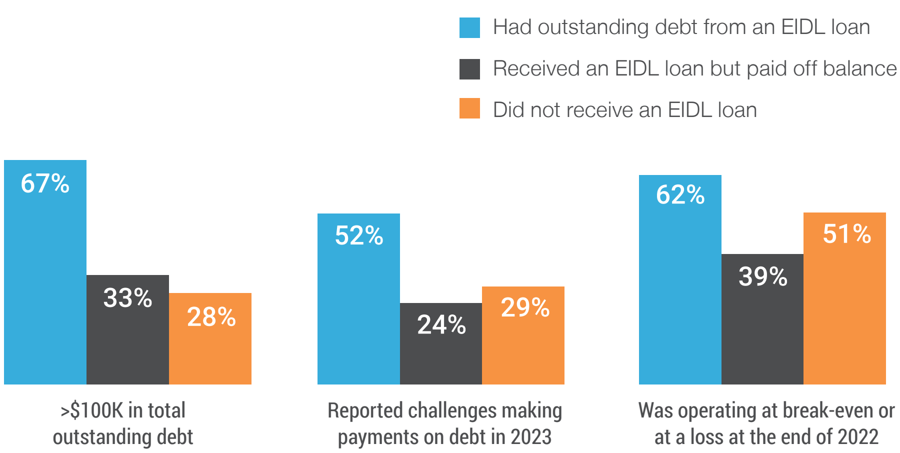
Forty-four percent of small employer firms (those with 1–499 employees) that responded to the 2023 SBCS indicated that they had received an EIDL loan at some point. At the time of that survey, administered from September through November 2023, 28% had an outstanding balance on an EIDL loan, as shown in Figure 1.[5] Firms continuing to carry EIDL debt at the time of the survey were in more precarious financial condition than those that either never had EIDL debt or had received an EIDL loan but paid it off.

For firms in each state of EIDL debt at the time of the 2023 SBCS, Figure 2 indicates their various financial conditions based on total debt held, challenges with making payments on debt, and profitability. Each of these three indicators suggests that businesses with outstanding EIDL debt face considerable financial pressure. Firms with outstanding EIDL balances were more likely to have high debt burdens than those without these balances. While just 28% of firms that had never received EIDL loans had more than $100,000 in outstanding debt, 67% of those with outstanding EIDL balances had more than $100,000 in outstanding debt (including, but not limited to, EIDL loans). Just over half of firms with outstanding EIDL debt reported challenges with making payments on their debt in 2023 compared to just 29% of firms that had never received EIDL loans. Furthermore, firms with outstanding EIDL debt were 11 percentage points more likely than those that had never received EIDL loans to say they were either operating unprofitably or at break-even at the end of 2022. The financial burden associated with EIDL debt persists even when controlling for firm characteristics such as firm age, industry, or credit risk.

Businesses that had received EIDL loans but repaid them as of the fielding of the 2023 SBCS were in stronger financial condition than those that had received EIDL loans but not yet repaid them. The data in Figure 2 indicate that, among firms that stayed in business during the most challenging days of the pandemic, some that had received EIDL loans emerged as profitable, with relatively low debt burdens. Firms that had never received EIDL loans faced financial pressure comparable to that of firms that had received EIDL loans and paid them off, with those in the former category seeing a higher probability of operating at break-even or unprofitably.

Turning back to firms with outstanding EIDL debt, their added debt burdens may be contributing to challenges with securing new financing. Firms with outstanding EIDL balances were as likely as those that had never received an EIDL loan to apply for any type of financing in the 12 months prior to the 2023 SBCS. However, firms with outstanding EIDL balances that applied for credit were less likely than those that had never received EIDL loans to be fully approved. The EIDL loans themselves are unlikely the cause of the lower rates of full approvals; rather, the elevated levels of overall debt associated with the EIDL loans are more likely the barrier to accessing new credit.[6] Half of the firms with outstanding

FIGURE 2. FINANCIAL CHARACTERISTICS OF FIRMS BY EIDL DEBT STATUS



Source: 2023 SBCS, Federal Reserve Banks.

5 *Among businesses that reported having received EIDL loans, 36% said the loans were paid off by the time of the 2023 SBCS.*

6 *Lenders may consider a small business's debt burden, regardless of its source, when assessing a firm's ability to repay. Additionally, added debt burden may reduce a business's credit score, another factor considered by lenders. For example, in the 2023 SBCS, 82% of firms with no outstanding debt at the time of the survey were low credit risk based on self-reported credit scores compared to 69% of those with outstanding debt.*

EIDL debt that were not fully approved cited elevated debt levels as the reason compared to just a quarter of those without outstanding EIDL debt. The added debt burden that firms took on through EIDL loans to stay in business during the pandemic may affect their ability to obtain new financing for growth or for use as working capital.

Additionally, firms with outstanding EIDL balances were more likely than those without them to cite not wanting to incur more debt as a reason for not applying for new financing. Among businesses that did not apply for credit, 29% of those with outstanding EIDL balances said they chose not to apply because they did not want to accrue more debt. The same was true of 13% of nonapplicants that did not have outstanding EIDL debt.

EIDL Loan Uptake and Outstanding Debt Across Business and Owner Demographics

By race and ethnicity of firm ownership

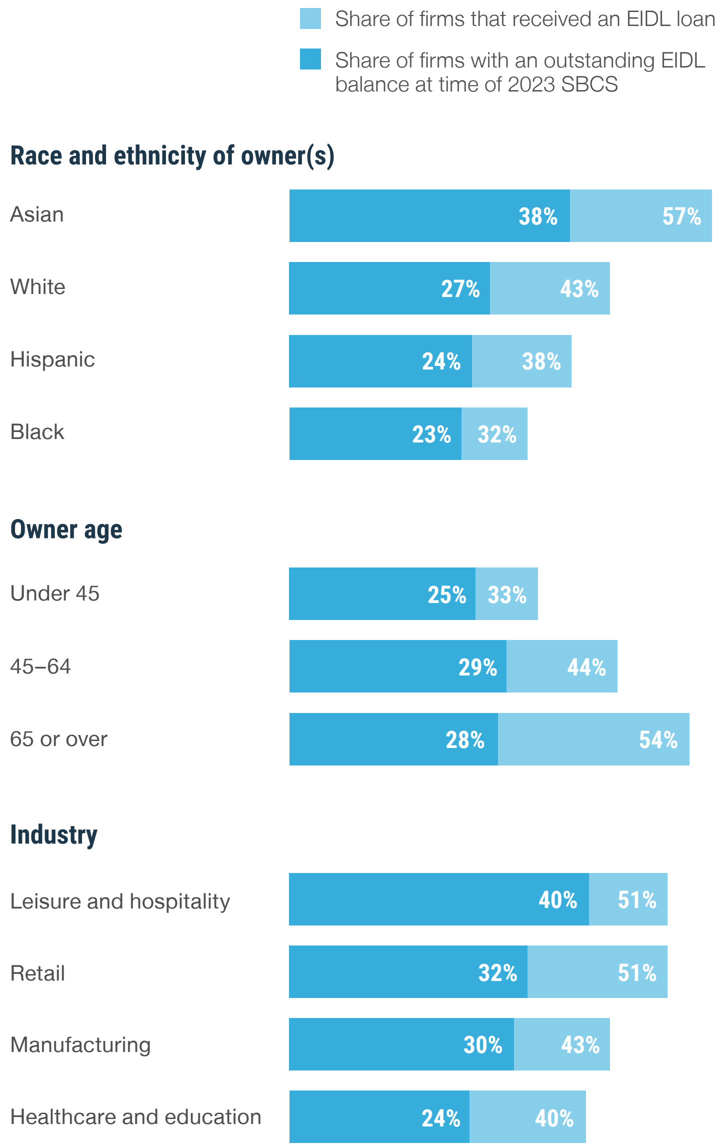
Across race and ethnicity categories in the 2023 SBCS, Asian-owned firms were most likely to have received EIDL loans and most likely to still owe on EIDL loans.[7] As shown in Figure 3, 38% of Asian-owned firms had outstanding EIDL balances at the time of the survey compared to just 27% of white-owned firms, 24% of Hispanic-owned firms, and 23% of Black-owned firms.

SBCS data from 2020 and 2021 show that Asian-owned firms were more likely than other subsets to seek *any* type of financial assistance during the pandemic. These firms experienced outsized effects from the pandemic: Compared to their counterparts, Asian-owned businesses were more likely to temporarily close because of the pandemic and to report a decline in revenues between 2019 and 2020. At the time of the 2020 SBCS, Asian-owned firms were also more likely to expect that sales would not normalize to prepandemic levels until 2022 or later, as they anticipated a significantly lengthier recovery timeline than did Black-, Hispanic-, or white-owned firms.

By owner age

Businesses with an older primary owner—especially those aged 65 or over—were more likely than those with a younger primary owner to have received an EIDL loan at some point. However, those with an older primary owner were more likely to have paid off their balances: While only around half of businesses primarily owned by someone aged 65 or over that took out EIDL loans still had outstanding balances at the end of 2023, the same was true of around three-quarters of businesses primarily owned by someone under 45 years old.

FIGURE 3. EIDL DEBT BY SELECT DEMOGRAPHICS



Source: 2023 SBCS, Federal Reserve Banks.

By industry

Across industries, 2023 SBCS data show that firms in leisure and hospitality were among the most likely to be holding EIDL debt.[8] Previous SBCS data show that the pandemic triggered steep revenue declines, reduced demand, and closures among leisure and hospitality firms. This likely left many of these firms in need of funds to weather the effects of the pandemic. Throughout the pandemic, firms in leisure

7 *The SBCS relies on US Census-defined categories of race and ethnicity; mutually exclusive race and ethnicity labels applied to a given business indicate that more than half of that business has owner(s) of a given race or ethnicity.*

8 *Leisure and hospitality firms include restaurants, bars, fitness centers, and hotels. Retail firms include boutiques, ecommerce providers, grocers, and hardware stores.*

and hospitality were far more likely than those in most other industries to pursue EIDL loans. Firms in retail were as likely as those in leisure and hospitality to have received EIDL loans but were more likely to have paid them off. This likely reflects in part the somewhat stronger financial positions of retail firms compared to those of leisure and hospitality firms, as reported in the 2023 SBCS.[9]

Conclusion

> *"We are struggling to stay open due to losses from COVID-19. I fear going out of business with my EIDL loan hanging over my head. I took the loan under great stress from [the pandemic] . . . Sometimes I'm grateful that I was given a chance to save my business, but I also feel I should never have been approved for the loan . . . Every day is a struggle."*
>
> – Manufacturing business in California

Many respondents noted that EIDL loans were a vital source of small-business funding during the pandemic, aiding firms as they navigated significant disruptions to their operations. That said, compared to firms that never took out EIDL loans, firms with outstanding EIDL loans were less likely to be operating profitably and were more likely to report challenges making payments on debt. Furthermore, firms with outstanding EIDL debt were less likely than those that had never received EIDL loans to successfully apply for new financing in 2023.

It is unclear from SBCS data whether firms that still have EIDL debt would have performed better had they chosen not to borrow from the program. Firms that never took out or already repaid EIDL loans cannot fully represent the alternative outcomes for firms that still have EIDL debt. The survey also does not have adequate data on the risk of firm closure to understand the impact EIDL loans may have had on a firm's chances of staying in business.

The survey does, however, capture the sentiment of firms that took out EIDL loans. This sentiment suggests that EIDL loans helped some firms stay in business but also created headwinds for their financial stability and growth prospects.

9 *Compared to leisure and hospitality firms, retail firms were more likely to report operating profitably (43% of retail firms compared to 34% of leisure and hospitality firms) and less likely to describe their financial condition as "poor" (23% of retail firms compared to 28% of leisure and hospitality firms).*