

COVID-19 Economic Injury Disaster Loan Servicing Capability



Management Advisory

Report 25-16

May 29, 2025



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

Date: May 29, 2025

To: Kelly Loeffler
Administrator

From: Sheldon Shoemaker
Deputy Inspector General

Subject: COVID-19 Economic Injury Disaster Loan Servicing Capability (Report 25-16)

This management advisory presents the results of our review of the U.S. Small Business Administration's Coronavirus Disease 2019 Economic Injury Disaster Loan Servicing Center. We considered management's comments on the draft of this report when preparing the final report. SBA management agreed with Recommendations 1 and 2, and both recommendations will be closed upon issuance of this report.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Wesley Coopersmith, Chief of Staff, Office of the Administrator
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Background

In response to the adverse economic effects caused by the Coronavirus Disease 2019 (COVID-19) pandemic, Congress provided lending authority for the U.S. Small Business Administration (SBA) to provide COVID-19 Economic Injury Disaster Loans (EIDL) to help businesses pay for expenses that could have been met had the pandemic not occurred, including working capital needs such as fixed debt payments and operating expenses such as payroll.

In addition to small businesses, private nonprofit organizations, and small agricultural concerns, entities eligible for COVID-19 EIDLs included cooperatives, Employee-owned Stock Ownership Plans (ESOP), and tribal business concerns with not more than 500 employees; sole proprietorships with or without employees; and independent contractors affected by COVID-19.¹ These entities could apply for 30-year loans up to \$2 million.²

Because of the unique nature of COVID-19 EIDLs, SBA's Office of Capital Access determined that a servicing center solely focused on these loans would be best suited to service and address them. As a result, in the first quarter of fiscal year 2023, the agency established a new COVID-19 EIDL Servicing Center (CESC) in Fort Worth, Texas.

From March 2020 through May 2022, SBA approved nearly 4 million COVID-19 EIDLs totaling over \$377 billion, a significant increase in the size of the pre-pandemic loan portfolio that was less than 263,000 disaster loans. As of October 7, 2024, about 27 percent of the COVID-19 EIDLs were charged off as uncollectible, 10 percent were paid in full, and 7 percent were cancelled before full disbursement. The remaining 2.3 million COVID EIDLs are now in servicing at the CESC. The volume of loans assigned to the CESC increased from about 2 million loans when we began our review in April 2024 to about 2.3 million loans in October 2024.

¹ Pub. L. No. 116-136 § 1110 (a)(2) the term "eligible entity" means – (A) a business with not more than 500 employees; (B) any individual who operates under a sole proprietorship, with or without employees, or as an independent contractor; (C) a cooperative with not more than 500 employees; (D) an ESOP (as defined in Section 3 of the Small Business Act (15 U.S.C. 632) with not more than 500 employees; or (E) a tribal small business concern, as described in Section 31 (b)(2)(c) of the Small Business Act (15 U.S.C. 657 a (b)(2)(c)) with not more than 500 employees.

² Pub. L. No. 116-136 § 1110 (b) ELIGIBLE ENTITIES – During the covered period, in addition to small business concerns, private nonprofit organizations, and small agricultural cooperatives, an eligible entity shall be eligible for a loan made under section 7(b)(2) of the Small Business Act (15 U.S.C. 636 (b)(2)).

Routine loan servicing includes issuing monthly loan statements, collecting monthly payments, and answering borrowers' questions about their loans. COVID-19 EIDL servicing, however, is significantly different than traditional loan servicing in that it includes a variety of complex servicing action requests that are not common to private sector business loans.

Specifically, the CESC reviews and approves COVID-19 EIDL servicing requests that include, but are not limited to:

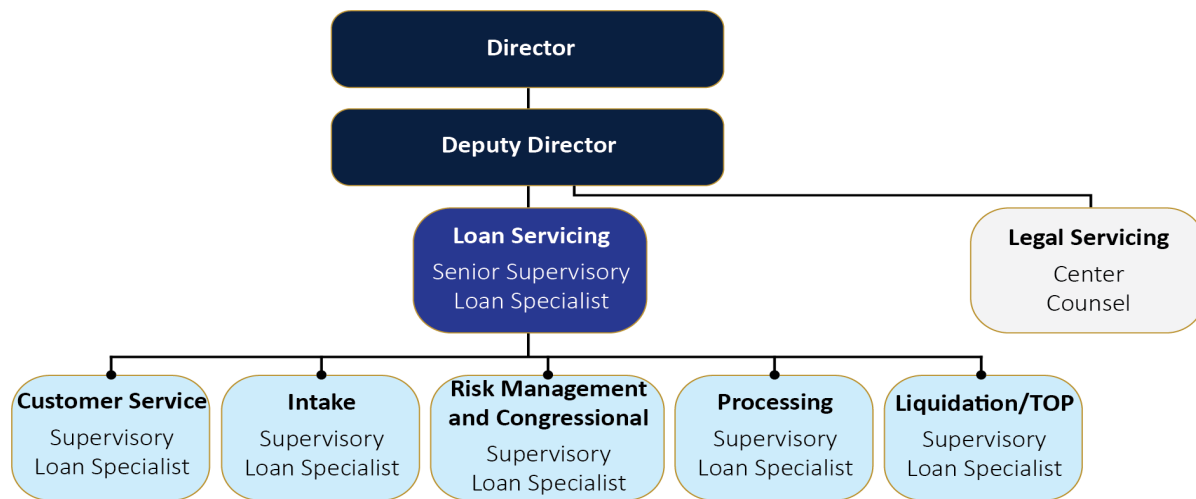
- Hardship Accommodation – providing an eligible borrower with a reduced monthly payment for up to 30 consecutive months.
- Subordination – subordinating SBA's senior lien position in Uniform Commercial Code or real estate collateral to a junior lender.
- Change of Ownership – consenting to a change in business ownership requested by the borrower.
- Assumption – consenting to a change of legal structure or for another business to assume a loan following sale of the business.
- Release of Collateral – releasing part or all of SBA's security interest or lien on collateral for a loan before the loan is paid in full.

Automated processes have allowed CESC staff to focus on these complex COVID-19 EIDL servicing action requests. For example, SBA's Unified Lending Platform generated monthly statements for borrowers. Borrowers received an email informing them that a statement was available for review in the MySBA Loan portal, and they could log in to view it. The portal, which was launched in February 2023, allowed borrowers to perform some actions themselves (such as view loan details, access loan statements, and make payments) and to message SBA to make some servicing action requests (such as payoff statement and verification of mortgage requests) through the portal's message function.

COVID-19 EIDL Servicing Center Structure

The CESC has a Director, Deputy Director, and a Senior Supervisory Loan Specialist who oversee operations. The CESC functional teams (Customer Service, Intake, Risk Management and Congressional, Processing, and Liquidation/TOP) perform loan servicing and other actions. The CESC also has five legal groups that review and approve high-risk servicing actions and prepare legal documents (see Figure 1 below).

Figure 1: CESC Organization Chart



Source: Office of Inspector General generated based on information provided by CESC management

Customer Service Team

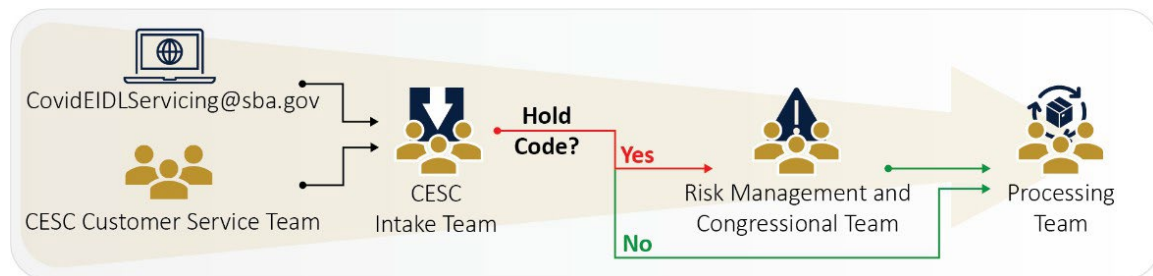
The Customer Service Team handled phone calls transferred from a Customer Service Center in Buffalo, New York. The Customer Service Center in Buffalo handled simple requests, such as changes of address or phone number, and transferred phone calls with more complex servicing action requests to the CESC Customer Service Team. A customer service staff member then assisted with creating a servicing action request for the borrower and emailed the request to the CESC Intake Team at COVIDEIDLservicing@sba.gov. The Customer Service Team's goal was to maintain an average call wait time of 4 minutes for 80 percent of the calls answered; however, this goal had not been issued in written guidance. The CESC had employee performance evaluation standards intended to ensure that the Customer Service Team answered borrower calls promptly.

Intake Team

The Intake Team received all servicing action requests generated by the borrower via an email to COVIDEIDLservicing@sba.gov or by the CESC Customer Service Team via an email. The Intake Team had a goal of processing a minimum of 30 servicing actions (cases) per day. If the Intake Loan Specialist could not fulfill the borrower servicing action request with the information obtained, they contacted the borrower for more information or documentation. Once the Intake Loan Specialist ensured that the borrower had provided all necessary information and there

were no hold codes³ attached to the loan, the Intake Loan Specialist created the loan servicing action in the system and assigned the loan to the next available Loan Specialist from the Processing Team. If there was a hold code on the loan, the request was forwarded to the Risk Management and Congressional Team (see Figure 2).

Figure 2: CESC Processing Flow for Servicing Action Requests



Source: Office of Inspector General prepared graphic based on interviews of CESC management.

Risk Management and Congressional Team

The Risk Management and Congressional Team reviewed COVID-19 EIDLs containing agency and non-agency hold codes. An agency hold code is added to a loan file when SBA is notified of possible fraud, detects possible fraud or identity theft associated with a COVID-19 EIDL, or there is an asset seizure made by law enforcement for that borrower. Non-agency hold codes pertain to loan eligibility concerns (such as bankruptcy, etc.), which may or may not be indicative of fraud.

The Risk Management and Congressional Team evaluated the validity of hold codes placed on loans. If the team determined that a hold code was valid, the requested servicing action was denied. If the reason for the hold code was unsubstantiated or resolved, the team removed the hold code so the servicing action could be performed by the Processing Team. A separate group within the Risk Management and Congressional Team was responsible for responding to congressional inquiries.

Processing Team

The Processing Team was responsible for approving all servicing actions. Although there were no written processing time goals for each type of servicing action request, the team had a goal of processing requests within 7 days of receipt.

³ A hold code is an identifier placed on a loan in the agency's system for potential fraud or eligibility issues.

Liquidation/TOP Team

The Liquidation/TOP team liquidated collateral and performed required tasks when notified that a borrower was deceased, had filed for bankruptcy, or had closed their business. The team also managed servicing inquiries concerning the U.S. Department of the Treasury (Treasury) Cross-Servicing Program (collection actions) and the Treasury Offset Program (TOP) for all COVID-19 EIDL and Paycheck Protection Program loans.⁴ This included recalling loans from Treasury back to the CESC, processing refunds from offset if required, reviewing Credit Alert System (CAIVRS) referrals for closure, and completing actions to return loans to regular servicing or liquidation when needed. The Liquidation/TOP team's goal was to respond to requests pertaining to deceased borrowers, bankruptcies, or business closures within 48 hours.

We are currently conducting a separate review regarding collection efforts on COVID-19 EIDL collateral and personal guarantors; therefore, we did not assess this team's activities in this review.

Objective

Our objective was to gain an understanding of SBA's COVID-19 servicing processes and determine its capability to service more than 2 million COVID-19 EIDLs.

Results

We found the CESC demonstrated that it was capable of servicing over 2 million COVID EIDLs during the period of our review. The CESC appeared to be adequately staffed as evidenced by its ability to complete over 23,500 servicing actions per month with an average processing time of 5.44 days per action. However, we identified opportunities for improvement related to formal documentation and issuance of performance goals and written COVID-19 EIDL servicing guidance. Formalizing goals and providing clear and current guidance will ensure accountability.

We also found that a large number of borrowers enrolled in the Hardship Accommodation Plan (HAP), which increased the servicing workload for the CESC. However, SBA has since ended the HAP program. As a result, we did not make any recommendations regarding this issue.

⁴ Federal and state agencies submit delinquent debt information to Treasury, Bureau of Fiscal Service. TOP intercepts and withholds federal and state payments for individuals who owe delinquent debts to federal and state agencies.

CEC Staffing and Servicing Action Cycle Times

As of October 8, 2024, the CEC had 1,492 staff members. CEC management projects that by fiscal year 2028, its portfolio will reach a steady state and will require about 600 staff members to service the anticipated portfolio of about 2 million COVID-19 EIDLs. The CEC monitored the time it took to complete servicing actions and reallocated staff members among teams as needed. From April through September 2024, the CEC processed an average of 23,561 servicing action requests monthly. The average overall cycle time for the 6-month period was 5.44 days, while the peak cycle time was 8.30 days. As of October 5, 2024, the CEC overall cycle time for processing servicing action requests had dropped to 4.72 days (see Table 1).

Table 1: CEC Weekly Cycle Times from July 6 Peak to October 5

Week Ended	Completed Actions	Intake Cycle Time (days)	Processing Cycle Time (days)	Overall Cycle Time (days)
7/6/2024	3,399	4.83	3.47	8.30
7/13/2024	5,909	4.88	2.97	7.85
7/20/2024	6,678	3.08	2.24	5.32
7/27/2024	5,961	4.38	2.42	6.80
8/3/2024	4,997	3.48	2.36	5.84
8/10/2024	5,608	2.02	2.35	4.37
8/17/2024	5,046	2.27	2.90	5.17
8/24/2024	6,119	2.07	2.79	4.86
8/31/2024	6,090	1.86	2.90	4.76
9/7/2024	3,626	2.72	3.03	5.75
9/14/2024	5,371	1.97	2.54	4.51
9/21/2024	5,100	1.74	3.30	5.04
9/28/2024	5,888	2.50	2.99	5.49
10/5/2024	6,332	1.85	2.87	4.72

Source: COVID-19 EIDL weekly cycle times for July 6 through October 5, 2024

Less complex servicing actions, such as payoff requests, verification of mortgage requests, and refund requests, took less time to process than more complex requests such as loan assumptions, change in ownership requests, and release of collateral. To illustrate, Table 2 below provides the average processing cycle times for various servicing actions.

Table 2: Average Processing Cycle Times — Week Ended October 5, 2024

Servicing Action Type	Average Processing Cycle Time (days)*
Payoff requests	1.23
Verification of mortgage requests	1.34
Refund requests	1.45
HAP enrollment requests	5.76
Return of loan to regular servicing	6.39
Subordinations	6.96
Release of collateral	19.25
Change in ownership requests	21.16
Loan assumptions	24.67

* Some actions required the borrower to provide documentation. The total processing cycle time included both the time it took for SBA to process the action and for the borrower to provide documentation.

Source: COVID-19 EIDL cycle times — week ended October 5, 2024

CESC Written Guidance and Performance Goals

The Office of Capital Access reorganization plan, which was approved on December 23, 2022, established the CESC. Accordingly, in coordination with the Office of Financial Program Operations, the CESC was required to develop and implement plans, operating procedures, and standards to effectively service the COVID-19 EIDL portfolio and communicate those efforts to internal and external stakeholders. The CESC was also required to implement approved operating procedures and standards to effectively monitor performance and strengthen and improve program delivery and communication.

SBA's Standard Operating Procedure (SOP) governing disaster loan servicing and collateral liquidation became effective on September 1, 2015, about 5 years before the onset of the COVID-19 pandemic occurred and SBA's COVID-19 EIDL program was created; therefore, it did not address COVID-19 EIDLs, and much of the SOP was not applicable to these loans.⁵ However, SBA issued a Policy Notice on December 12, 2022, to provide additional guidance specific to

⁵ SOP 50 52 2, Disaster Loan Servicing and Liquidation, effective September 1, 2015.

servicing and liquidating COVID EIDLs. This Policy Notice was later updated August 5, 2024, and is valid until August 1, 2025.⁶ The agency is in the process of updating the SOP to include COVID-19 EIDLs.

SBA also created a *Draft COVID EIDL Servicing Manual* that was subsequently revised on various dates. This manual provides the primary internal controls over COVID-19 EIDL servicing. During the time of our review, the manual remained in draft form and had not yet been finalized or approved by CESC management.

In addition, as depicted in Table 3, the CESC developed performance goals for each CESC team to help facilitate timely processing. However, these goals were not in written guidance during the time of our review.

Table 3: CESC Team Servicing Action Performance Goals

CESC Team	Performance Goal
Customer Service	Average call wait time of 4 minutes for 80 percent of calls answered
Intake	Process 30 servicing action cases per day (minimum)
Processing	Process servicing actions within 7 days of receipt
Liquidation/TOP	Respond to requests pertaining to deceased borrowers, bankruptcies, or business closures within 48 hours

Source: CESC management officials

Similarly, as previously mentioned in this report, the CESC has informal goals for overall processing cycle times. However, at the time of our review, management had not yet developed formal, written processing performance goals for the specific servicing actions it routinely performs. For example, there were no formal processing time goals for approving requests related to HAP, subordination, change of ownership, assumption, or release of collateral.

The Government Performance and Results Act (GPRA) requires federal agencies to develop a 5-year strategic plan and to submit an annual performance plan and annual performance report to Congress. It also requires agencies to engage in performance management tasks such as setting goals, measuring results, and reporting progress. The GPRA Modernization Act, enacted

⁶ SBA Policy Notice 5000-857729, COVID EIDL Servicing and Liquidation, effective August 5, 2024.

in 2010, provides the foundation for holding federal agencies accountable for setting performance goals and objectives that deliver results for the American taxpayer. By formalizing written goals, SBA will enhance its ability to effectively monitor CESC operations.

Hardship Accommodation Plan

In November 2022, SBA implemented the HAP program to aid borrowers whose 30-month payment deferment for COVID-19 EIDLs was ending. HAP was intended to help those who had not yet fully recovered from the pandemic and may have been struggling to make their monthly payments. HAP allowed borrowers to make reduced monthly loan payments for up to 30 months; however, the unpaid principal and interest that accumulated during HAP enrollment would result in a balloon payment that would come due at the end of the 30-year note.

Since this program was implemented, approvals for HAP enrollment have represented the largest volume of servicing actions performed at the CESC. We determined that as of October 7, 2024, there were 301,234 COVID-19 EIDLs enrolled in the plan, totaling \$37 billion. This represented about 13 percent of all loans in servicing and about 15 percent of the total dollars in servicing. Although the CESC managed the significant increase in HAP servicing actions, a continued increase in these actions could have challenged the CESC's capacity. However, on March 19, 2025, SBA discontinued offering HAP, and as a result, we did not make any recommendations related to the HAP program.

Recommendations

To ensure appropriate processes are followed and to effectively monitor CESC operations, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Finalize and approve procedures and standards included in the *Draft COVID EIDL Servicing Manual*.

Recommendation 2: Publish and communicate written overall CESC performance goals for effective monitoring of its operations in coordination with SBA's Office of Financial Program Operations.

Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 1. Management agreed with Recommendations 1 and 2 and has taken actions to implement both. Because management's actions satisfy the intent of Recommendations 1 and 2, both recommendations will be closed upon issuance of this report.

Summary of Actions Necessary to Close the Recommendation(s)

The following section summarizes the status of our recommendations and the actions necessary to close them.

Recommendation 1

To ensure appropriate processes are followed, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to finalize and approve procedures and standards included in the *Draft COVID EIDL Servicing Manual*.

Status: Closed

SBA management agreed with the recommendation. On April 10, 2025, the agency finalized the *COVID EIDL Servicing Manual* after proper reviews and approvals by the appropriate SBA officials. SBA's actions to finalize the manual sufficiently meet the intent of our recommendation; therefore, we are closing this recommendation upon issuance of this report.

Recommendation 2

To effectively monitor CESC operations, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to publish and communicate written overall CESC performance goals for effective monitoring of its operations in coordination with SBA's Office of Financial Program Operations.

Status: Closed

SBA management agreed with the recommendation. The agency included CESC servicing action performance goals for fiscal year 2025 within its finalized *COVID EIDL Servicing Manual*, dated April 10, 2025. In a follow-up statement to our inquiry regarding goals within the *COVID EIDL Servicing Manual*, SBA officials clarified that they would update the manual in ensuing years to reflect CESC performance goals for that year.

Management's inclusion of fiscal year 2025 performance goals in the finalized *COVID EIDL Servicing Manual*, coupled with their plan to update the manual in ensuing years as appropriate, sufficiently meets the intent of our recommendation. As a result, we are closing this recommendation upon issuance of this report.

Scope and Methodology

This management advisory reports the results of our review of SBA's CESC. The scope of our inspection covered April through October 2024.

We reviewed federal laws, regulations, policies, procedures, internal memorandums, and other written guidance pertaining to SBA COVID-19 EIDL servicing. We also interviewed SBA officials assigned to the CESC to obtain an understanding of its operations. Additionally, we interviewed supervisors responsible for managing the day-to-day operations of select functional groups assigned to the CESC and obtained and reviewed reports containing performance metrics for those groups. We did not interview supervisors assigned to the Liquidation/TOP Team because the SBA Office of Inspector General was conducting a separate review of this team at the time of our inspection.

SBA's Office of Inspector General Technology Solutions Division integrated information from the following tables provided monthly by the agency to produce a singular dataset:

- Disaster Loan Extract
- Disaster Additional Information
- Disaster Loan
- COVID EIDL Master Application ETRAN Loan Characteristics
- ETRAN Use of Proceeds
- CARES Hold Code

We then analyzed the dataset to determine the total number and percentage of loans in servicing, delinquent in servicing, charged off the accounting records, paid in full, and canceled for April 29 through October 7, 2024.

We also obtained data for all loans previously and currently enrolled in HAP as of October 2, 2024. We reviewed and analyzed the data to obtain a better understanding of HAP.

We did not perform detailed transaction testing of the CESC's servicing actions because we did not identify significant concerns indicating that material errors would be found.

We performed this review in accordance with the Council of Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require we plan and perform a review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objectives.

Appendix 1: Agency Response

U.S. Small Business Administration
Response to Draft Report



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Sheldon Shoemaker
Deputy Inspector General
U.S. Small Business Administration

From: Jihoon Kim, Director, Office of Financial Program Operations, OCA
JI KIM

Date: May 5th, 2025

Subject: Response to OIG Draft Report – COVID-19 Economic Injury Disaster Loan Servicing Capability (Project 24803)

Digitally signed by JI KIM
Date: 2025.05.01 11:25:33 -04'00'

In response to the adverse economic effects caused by the Coronavirus Disease 2019 (COVID-19) pandemic, Congress provided lending authority for the U.S. Small Business Administration (SBA) to provide COVID-19 Economic Injury Disaster Loans (EIDL) to help businesses pay for expenses that could have been met had the pandemic not occurred, including working capital needs such as fixed debt payments and operating expenses such as payroll.

Because of the unique nature of COVID-19 EIDLs, SBA's Office of Capital Access determined that a servicing center solely focused on these loans would be best suited to service and address them. As a result, in the first quarter of fiscal year 2023, the agency established a new COVID-19 EIDL Servicing Center (CESC) in Fort Worth, Texas.

From March 2020 through May 2022, SBA approved nearly 4 million COVID-19 EIDLs totaling over \$377 billion, a significant increase in the size of the pre-pandemic loan portfolio that was less than 263,000 disaster loans. As of October 7, 2024, about 27 percent of the COVID-19 EIDLs were charged off as uncollectible, 10 percent were paid in full, and 7 percent were cancelled before full disbursement. The remaining 2.3 million COVID EIDLs are now in servicing at the CESC. The volume of loans assigned to the CESC increased from about 2 million loans when we began our review in April 2024 to about 2.3 million loans in October 2024.

Recommendation 1: Finalize and approve procedures and standards included in the Draft COVID EIDL Servicing Manual.

SBA Response: SBA agrees to finalize procedures and standards in the Draft COVID EIDL Servicing Manual.

Recommendation 2: Publish and communicate written overall CESC performance goals for effective monitoring of its operations in coordination with SBA's Office of Financial Program Operations.

SBA Response: SBA agrees to publish and communicate written overall CESC performance goals in the finalized COVID EIDL Servicing Manual.