

# **SBA's Collection Efforts on Delinquent COVID-19 EIDLs**



**Audit Report**  
**Report 25-23**  
**August 12, 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](mailto: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.



# U.S. Small Business Administration Office of Inspector General

## EXECUTIVE SUMMARY

### SBA's Collection Efforts on Delinquent COVID-19 EIDLs (Report 25-23)

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#### What OIG Reviewed

This report presents the results of our audit to determine the U.S. Small Business Administration's (SBA) efforts to collect on delinquent Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL) with collateral and personal guarantors.

As of December 18, 2024, SBA charged off over \$47 billion in delinquent COVID-19 EIDLs without suspected or confirmed fraud. Less than 1 percent of the original loan amounts were recovered during SBA's liquidation process. Recoveries included, but were not limited to, payments made by the borrower during the liquidation process or due to the borrower's business closure, payments made due to the death of the borrower or personal guarantor, and recoveries from bankruptcy proceedings.

#### What OIG Found

Opportunities existed for SBA to implement strategies to collect on delinquent COVID-19 EIDLs as outlined in federal laws, standards, and agency policies. Specifically, the agency did not perfect its security interest on borrower deposit accounts, conduct post-default site visits, report all delinquent obligors to credit bureaus, or refer debts to the U.S. Department of Justice for litigation.

When borrowers defaulted on COVID-19 EIDLs, SBA sought recovery by attempting to contact them and personal guarantors via automated demand letters, telephone calls, and emails. If borrowers and personal guarantors did not answer or respond to these attempts, or if they did not provide a collateral list, SBA

abandoned the collateral and then charged off and referred the loans to the U.S. Department of the Treasury.

By not maximizing collection efforts early in the delinquency process, before referring the loans to the U.S. Department of the Treasury, SBA reduced the likelihood of recovering the \$47 billion in charged-off COVID-19 EIDLs because the ability to collect delinquent debts generally decreases as the debts become older.

#### What OIG Recommended

We recommended SBA conduct a study to determine the minimum loan dollar thresholds for performing site visits, implement policies and procedures based the results of that study, and ensure post-default site visits are conducted and available collateral is liquidated on delinquent COVID-19 EIDLs; verify that all delinquent COVID-19 EIDL obligors are reported to credit bureaus in a timely manner; and confer with the U.S. Department of Justice to establish a reasonable standard for referring delinquent COVID-19 EIDLs for litigation.

#### Agency Response

SBA management agreed with one recommendation and disagreed with two. Management's planned action to add functionality to the agency's loan servicing system to allow for tracking of credit bureau submissions resolved Recommendation 2. Management's response did not resolve Recommendations 1 and 3; therefore, we will seek resolution in accordance with our audit follow-up policy.



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

**MEMORANDUM**

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**Date:** August 12, 2025

**To:** Kelly Loeffler  
Administrator

**From:** Sheldon Shoemaker  
Deputy Inspector General

A handwritten signature in black ink that reads "Sheldon Shoemaker".

**Subject:** SBA's Collection Efforts on Delinquent COVID-19 EIDLs (Report 25-23)

This audit report presents the results and findings of our review of SBA's collection efforts on delinquent Coronavirus Disease 2019 Economic Injury Disaster Loans. We considered management's comments on the draft of this report when preparing the final report. SBA management agreed with Recommendation 2 and disagreed with Recommendations 1 and 3.

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

cc: Bill Briggs, Deputy Administrator, Office of the Administrator  
Wesley Coopersmith, Chief of Staff, Office of the Administrator  
Ben Grayson, Deputy Chief of Staff, Office of the Administrator  
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# Introduction

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This report presents the results of our audit to determine the U.S. Small Business Administration's (SBA) efforts to collect on delinquent Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL) with collateral and personal guarantors. Collateral is defined as item(s) pledged by a borrower as security for repayment of a loan, subject to possible collection in the event of default. A personal guarantor is one who assumes responsibility for payment of a debt if the person(s) or concern primarily liable fails to pay.

## Background

In March 2020, the Coronavirus Preparedness and Response Supplemental Appropriations Act deemed the COVID-19 pandemic a disaster under section 7(b) of the Small Business Act and authorized SBA to issue COVID-19 EIDLs to affected businesses. The Coronavirus Aid, Relief, and Economic Security Act subsequently established criteria for small businesses to obtain COVID-19 EIDLs and provided initial funding for these loans. From March 2020 to May 2022, SBA approved nearly 4 million COVID-19 EIDLs totaling almost \$387 billion.

As of December 18, 2024, SBA charged off 369,588 COVID-19 EIDLs with original loan balances exceeding \$25,000, totaling over \$47 billion, and is attempting to collect on an additional 96,745 COVID-19 EIDLs, totaling \$14.7 billion, that have been delinquent for 90 days or more.<sup>1</sup> Charge-off is an administrative action taken by SBA after all reasonable efforts to achieve recovery have been exhausted, thus ending active collection. After charge off, the loan and remaining obligors must be referred to the U.S. Department of the Treasury (Treasury) for inclusion in the Cross-Servicing program unless further collection is barred by a valid legal defense such as compromise, discharge in bankruptcy, or the statute of limitations.

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<sup>1</sup> These figures exclude loans with confirmed or suspected fraud.

## **Borrower Security and Personal Guaranties**

Depending on the loan amount, SBA required borrowers to pledge collateral and sign personal guaranties to secure COVID-19 EIDLs as follows:

- \$0–\$25,000: No collateral or personal guaranty required
- \$25,001–\$200,000: Blanket lien on business assets
- \$200,001–\$500,000: Blanket lien on business assets and a personal guaranty<sup>2</sup>
- \$500,001–\$2,000,000: Blanket lien on business assets, a personal guaranty, and a best available mortgage on real estate owned by the applicant business if available

SBA policy states that collateral requirements are established based on a balance between protection of the agency's interest as a creditor and as a provider of disaster assistance. Further, SBA will not decline a loan for lack of collateral but requires the applicant to pledge the collateral the agency has determined is available.

Additionally, SBA required personal guaranties from individuals or entities owning 20 percent or more of the applicant's business for all COVID-19 EIDLs exceeding \$200,000. Personal guaranties are an unconditional obligation to pay the full amount of the loan upon the agency's written demand for payment. Because the guaranties were not secured with collateral, SBA was limited in its ability to collect from personal guarantors and could only pursue them for repayment of the delinquent loan. SBA cannot file litigation activities independent of the U.S. Department of Justice (DOJ).

### **Blanket Liens**

Instead of taking out liens on specific assets owned by a business, SBA chose to use blanket liens on COVID-19 EIDLs over \$25,000. The blanket liens provided the agency the right to take possession of the borrower's assets upon default, such as inventory, equipment, and any other tangible or intangible property owned by a business. To create the blanket lien, SBA and the borrower signed a security agreement that granted the agency a security interest in all the property described in that agreement. SBA perfected these blanket liens by filing a Uniform Commercial Code (UCC) financing statement in the relevant state offices. However, in cases in which the debtor disputed the default, SBA may have had to file a suit to gain possession of the collateral.

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<sup>2</sup> No personal guaranty is required for nonprofit organizations or employee stock ownership plans.

## **Real Estate**

SBA required real estate as collateral, if available, on COVID-19 EIDLs over \$500,000. If a business did not own real estate, the agency would not decline the loan for that reason alone. Of the 58,024 COVID-19 EIDLs exceeding \$500,000, only 4,718 were secured with real estate. These loans had a much lower default rate than loans not secured with real estate. As of July 2024, only five loans secured with real estate have defaulted, and there have been no completed foreclosures of real estate used as collateral for COVID-19 EIDLs.

## **Liquidation**

Liquidation is the process of converting collateral to cash to pay all or a portion of a debt. Once all reasonable efforts have been exhausted to achieve recovery from liquidation, loans are charged off. According to SBA policy, loans should be placed in liquidation status or charged off at 90–110 days past due. However, according to SBA officials, that policy was updated beginning on September 11, 2023, and COVID-19 EIDLs in liquidation were charged off at or approximately 120 days past due. This policy was again changed on March 11, 2024, when COVID-19 EIDLs in liquidation were charged off at, or approximately, 180 days past due.

## **Collection Requirements**

The Debt Collection Improvement Act of 1996 (DCIA) requires agencies to maximize collections of delinquent debt by ensuring quick action to enforce recovery of debts and use of all appropriate collection tools. The DCIA also requires Treasury to pursue delinquent debts that are not actively being collected by federal agencies. Further, the DCIA and Digital Accountability and Transparency Act of 2014 require agencies to refer debts no later than 120 days delinquent to the Treasury Offset Program (TOP) and debts 180 days or more delinquent to the Treasury Cross-Servicing program.

TOP is a centralized offset program that withholds money payable by the federal government to a person or entity to satisfy a debt the person or entity owes. The types of federal payments eligible for offset include, but are not limited to, Internal Revenue Service tax refunds, retirement payments issued by the Office of Personnel Management, and federal salary payments. The Cross-Servicing program uses a variety of tools to collect debts, including but not limited to, sending demand letters, calling debtors, referring debts to the DOJ for litigation, reporting debts to credit bureaus, and referring debts to private collection agencies.



Federal Claims Collection Standards, 31 Code of Federal Regulations (CFR) Chapter IX, § 901.1, also requires federal agencies to promptly and aggressively collect all debts arising out of activities of that agency. Office of Management and Budget Circular No. A-129, “Policies for Federal Credit Programs and Non-Tax Receivables,” states that agencies shall promptly act on the collection of delinquent debts by using all available collection tools to maximize collections. Also, according to Treasury’s “Managing Federal Receivables” guide, an agency has the affirmative responsibility to try to collect delinquent debts that are owed to the agency or referred to the agency for collection. Further, an agency fulfills its affirmative responsibility to try to collect delinquent debts by engaging in active collection. Active collection means that the debt is being collected using all appropriate debt collection remedies including, but not limited to, sending written demand letters, reporting debts to credit bureaus, offset, garnishment, foreclosure, litigation, and referral to the Treasury Cross-Servicing program.

Federal law exempts agencies from the obligation to refer debts to Treasury for offset and cross-servicing when the debt is in litigation or foreclosure. However, in April 2024, Treasury granted SBA a 2-year exemption from referring all delinquent COVID-19 EIDLs to cross-servicing regardless of dollar value or litigation status. Due to this exemption, all delinquent COVID-19 EIDLs that SBA had already sent to Treasury for cross-servicing were returned for SBA to service through March 31, 2026. Notwithstanding the exemption from referring delinquent COVID-19 EIDLs to cross-servicing, SBA must still refer these debts to TOP for offset.

## **Objective**

Our objective was to determine SBA’s efforts to collect on delinquent COVID-19 EIDLs with collateral and personal guarantors.

## **Results**

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We found that SBA could have maximized collections and more aggressively collected on delinquent COVID-19 EIDLs by employing appropriate debt collection tools prescribed by federal laws, standards, and agency policies. Specifically, the agency did not perfect its security interest on borrower deposit accounts, conduct post-default site visits, report all delinquent

obligors to credit bureaus, or refer debts to the DOJ for litigation. As a result, SBA charged off 369,588 COVID-19 EIDLs totaling over \$47 billion, which is 98 percent of the original loan amounts.

## **Finding: SBA Could Have Employed Additional Tools to Maximize Collections on COVID-19 EIDLs**

SBA did not maximize collections by using all appropriate collection tools to aggressively collect delinquent COVID-19 EIDL debt from borrowers and personal guarantors before referring loans to Treasury. According to the DCIA Federal Claims Collection Standards and Treasury's "Managing Federal Receivables" guide, collection activities include, but are not limited to, sending written demand letters, liquidating collateral, reporting debts to credit bureaus, litigation, and after charge off, referring defaulted debts to two programs at Treasury: Cross-Servicing and TOP. Further, Treasury's guide also states that agencies' debt collection strategies should promote the resolution of delinquencies as quickly as possible because the ability to collect delinquent debts generally decreases as the debts become older. Therefore, SBA is missing opportunities to maximize collection efforts by not exhausting all collection efforts available before referring delinquent loans to Treasury.

In general, when borrowers defaulted on COVID-19 EIDLs, SBA sought recovery by attempting to contact borrowers and personal guarantors via automated demand letters, telephone calls, and emails. If SBA was unable to contact the borrower, or if they contacted the borrower but the borrower stated they did not have any collateral, the agency added a note in the loan file stating that the borrower failed to respond to all collection efforts. Thus, all collateral would be abandoned or acknowledged as lost, all liquidation efforts would be exhausted, and the loan would be charged off and referred to Treasury.

If the borrower did have collateral to be liquidated, SBA stated the agency would pursue the collateral if its recoverable value was greater than \$100,000. However, if the borrower provided a list of available business assets that SBA determined was valued at \$100,000 or less, the agency would subsequently charge off the delinquent COVID-19 EIDL before referring it to Treasury.

According to SBA Standard Operating Procedure 50 52 2, "Disaster Loan Servicing and Liquidation," liquidation activities include, among other potential actions, voluntary sale of collateral by the borrower, UCC sale by SBA, judicial foreclosure of personal property, voluntary payments, and litigation. However, it appears the agency is bypassing its responsibility to perform these liquidation activities on a majority of delinquent COVID-19 EIDLs before referring

the loans to Treasury, as 88 percent of the 369,588 charged-off loans totaling more than \$47 billion were in liquidation status for an average of only 3 days (see Appendix 2, Table 2-1). For example, we identified two loans, one totaling \$2 million and another totaling \$500,000, that each entered and exited the liquidation stage on the same day and had no documentation to indicate that liquidation activities were performed other than automated telephone calls and demand letters. In contrast, loans that were paid in full through collection (usually borrower or estate voluntary actions) were in liquidation an average of 67 days.

Generally, we found SBA has primarily recovered on delinquent loans when:

- The agency filed probate claims after being notified of a deceased obligor,
- Borrowers initiated contact with the agency to request a release of collateral due to the sale of their business,
- Borrowers informed the agency of a business closure, or
- Borrowers notified the agency that they were in litigation, primarily bankruptcy.

To illustrate SBA's lack of aggressive debt collection, we identified a \$2 million COVID-19 EIDL the agency charged off. A note in the loan file stated, "Borrower has failed to respond to all collection efforts (including telephone calls and demand letters), and no further collection effort is possible. UCC shows SBA as lienholder. With approval of this action, all collateral will be abandoned or acknowledged as lost, and all liquidation efforts toward maximum recovery will be exhausted." SBA charged off and referred this loan to Treasury even though the agency had in fact been in contact with the borrower that same day. There was no evidence in the loan file to indicate the agency inquired about available collateral, the borrower stated there was no available collateral, or that SBA referred this \$2 million debt to the DOJ for litigation. Further, there are many discussions on public forums regarding SBA's collection efforts or the lack thereof. These discussions highlight the agency's inaction on debt collection and can be influential in encouraging borrowers not to pay COVID-19 EIDLs.

When compared to commercial banks, COVID-19 EIDLs have a delinquency rate that is almost five times higher than the industry norm. As of December 18, 2024, SBA charged off and did not recover more than \$47 billion of COVID-19 EIDLs. Less than 1 percent of the original loan amounts that were recovered by SBA during liquidation included, but were not limited to, payments made by the borrower during the liquidation process or due to the borrower's business closure, payments made due to the death of the borrower or personal guarantor, and recoveries from bankruptcy proceedings.

Through debt collection tools cited in laws, regulations, and agency policies, SBA could have better protected taxpayers' interests and maximized collections before referring delinquent COVID-19 EIDLs to Treasury by:

- Perfecting its security interest on borrower deposit accounts,
- Conducting post-default site visits,
- Reporting all delinquent obligors to credit bureaus, and
- Referring debts to the DOJ for litigation.

## **Perfecting Security Interest in Borrower Deposit Accounts**

While SBA filed UCC financing statements with the appropriate Secretary of State that listed borrower deposit accounts as collateral, the agency did not perfect its security interest in those accounts. Perfection of a security interest involves the secured party taking additional steps to ensure priority over other parties who have not yet perfected their interests regarding collateral. By not perfecting its security interest in borrower deposit accounts at the time of loan origination, SBA was unable to instruct banks to apply funds in borrower deposit accounts to the COVID-19 EIDL loan balance upon borrower default.

SBA Standard Operating Procedure 50 52 2 states that cash in a borrower's deposit account should be applied to their disaster loan balance in compliance with UCC § 9-607, "Collection and Enforcement by Secured Party," and the terms of any applicable control agreement. However, according to UCC provisions, perfecting SBA's security interest in borrower deposit accounts requires an additional step the agency did not perform. That step was for SBA to execute a written control agreement among the borrower, bank, and SBA to ensure the bank would comply with SBA's instructions to direct disposition of the funds in the account without further consent by the debtor.

SBA stated that obtaining a control agreement would have greatly increased the time it took to close and disburse COVID-19 EIDLs, conflicting with the intent and spirit of the statutory and policy changes made to the EIDL program. The agency also stated that, in many cases, depository institutions were reluctant to execute a control agreement because it required extensive legal review and back-and-forth discussions on a case-by-case basis. Furthermore, the agency speculated that when a borrower defaulted on a loan, there would be no cash left in the deposit account. SBA did not provide any documentation supporting these assertions.

Had SBA perfected its security interest in borrower deposit accounts, the agency might have recovered some of the loan debt. However, because the agency's practice was to not perfect its security interest in borrowers bank accounts, SBA was unable to apply cash in borrower deposit accounts to the delinquent loan balance. As a result of not utilizing this as a tool to maximize collections, SBA was not protecting the taxpayers' interests.

SBA is no longer accepting new applications, requests for increases, or reconsiderations of denied loan applications for the COVID-19 EIDL program. Therefore, borrowers and banks would have little incentive to sign an agreement to perfect the security interest on the deposit accounts because the borrowers have already received loan proceeds. Consequently, the Office of Inspector General is not recommending SBA pursue perfection of its security interest on borrower deposit accounts for COVID-19 EIDLs.

## **Conducting Post-Default Site Visits**

According to SBA policy that was in effect during the scope of our review, once a loan was classified as being in liquidation, prudent action should have been taken to avoid loss or dissipation of collateral. While not explicitly required by agency policy, a post-default site visit was suggested as an example of such an action. A post-default site visit is a personal visit to inspect and verify the current condition and use of collateral and should be made when warranted by prudent lending practices. A prudent lending practice is based on sound judgment to protect federal and lender interests. SBA policy also provides that circumstances prompting a post-default site visit may include situations in which the agency received notice of any matter that may affect the value of the collateral and SBA's ability to maximize recovery.

SBA did not conduct post-default site visits for COVID-19 EIDLs to inspect and appraise collateral available for liquidation to recover the debt. Agency officials stated that, in most cases, a blanket lien on business assets has little value, and the cost of selling the assets outweighs the cost of recovery. As a result, when borrowers defaulted on COVID-19 EIDLs, the agency did not conduct post-default site visits to identify available collateral and its value for liquidation. Rather, SBA tried to contact borrowers and personal guarantors via automated telephone calls, demand letters, and emails. If borrowers did not answer or respond to the agency's contact attempts or, if contacted, provided a list of assets that SBA valued at \$100,000 or less, the agency abandoned the collateral and charged off the loan before referral to Treasury.

This approach differs from SBA's 7(a) loan program, which provides loan guaranties to lenders for small business loans. For the 7(a) loan program, the agency requires lenders to perform

site visits within 15 to 60 calendar days depending on the type of default. This requirement reflects prudent lending practices. SBA does not have an established site visit timeline for COVID-19 EIDLs.

Because SBA did not obtain a list of available assets at loan origination on the blanket liens, the agency did not know what assets, if any, the borrower had to liquidate. In some cases, the delinquent borrower sold assets without SBA's knowledge or approval. In other cases, if landlords contacted SBA about assets abandoned by their tenant/SBA loan borrower, the agency did not conduct a site visit. Instead, SBA disclaimed all interest in the assets if the landlord was willing to provide a description, value, and find a buyer of the tangible assets.

Had the agency conducted post-default site visits, unapproved sales of assets could have been prevented; borrower-abandoned assets could have been liquidated; existing assets for delinquent borrowers could have been identified, appraised, and liquidated as appropriate; and proceeds could have been applied to the delinquent loan balance.

## **Recommendation**

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 1:** Conduct a study to establish minimum loan thresholds for performing site visits, implement policies and procedures based the results of that study, and perform site visits to help facilitate appropriate liquidation of collateral on defaulted COVID-19 EIDLs in an effort to maximize collections.

## **Reporting Delinquent Obligor to Credit Bureaus**

SBA did not provide evidence that it had reported all delinquent COVID-19 EIDL obligors to credit bureaus. Treasury's "Managing Federal Receivables" guide requires agencies to report delinquent borrowers and personal guarantors to credit bureaus. DCIA and Federal Claims Collection Standards also state the agency shall report delinquent debts to credit bureaus. In addition, the DCIA states that a person may not obtain any federal financial assistance in the form of a loan (other than a disaster loan) or loan insurance or guarantee if that person has an outstanding debt that is in delinquent status with any federal agency.

SBA guidance states that the agency's collection efforts are subject to the requirements of the DCIA. Further, Office of Management and Budget Circular A-129 states that agency servicing

systems must be able to identify and refer debts to credit bureaus in accordance with the requirements of 31 U.S.C. § 3711 and that there is no minimum dollar threshold for such reporting.

SBA takes steps to meet these requirements by submitting commercial (i.e., business) and consumer (i.e., individual) reports to credit bureaus monthly. Whether a delinquent obligor gets reported on the commercial or consumer report is determined based on the business structure. If the obligor is a business or sole proprietor with an Employer Identification Number (EIN),<sup>3</sup> they would be reported on the commercial report. If the obligor is a sole proprietor with no EIN, an individual contractor, a self-employed individual, or is a personal guarantor on a loan of \$200,000 or more, they would be reported on the consumer report. As of December 2024, SBA did not provide evidence that it had reported 832,930 (or 95 percent) obligors on delinquent COVID-19 EIDLs to credit bureaus. SBA relied on an automated system to report delinquent loans to credit bureaus but did not prove the agency had procedures to verify all delinquent borrowers and personal guarantors were reported. By not ensuring proper credit bureau reporting of delinquent COVID-19 EIDL debt, SBA is not providing potential lenders, including federal agencies, critical information needed to assess borrower and personal guarantor eligibility and creditworthiness for future loans.

## Recommendation

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 2:** Verify all delinquent COVID-19 EIDL obligors are reported to credit bureaus in a timely manner.

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<sup>3</sup> An EIN is a federal tax identification number for businesses, tax-exempt organizations, and other entities that have employees; will need to pay employment, excise or alcohol, tobacco, and firearms taxes; or withhold taxes on income, other than wages, paid to a nonresident alien. A sole proprietor may have an EIN even though they do not have any employees; however, sole proprietors with EINs are treated as businesses rather than individuals for credit bureau reporting purposes.

## **Referring Delinquent Loans to the U.S. Department of Justice for Litigation**

SBA did not refer delinquent COVID-19 EIDLs, regardless of amount, to the DOJ for litigation to collect against borrowers and personal guarantors as required by the Federal Claims Collection Standards. Instead, the agency relied on the Treasury Cross-Servicing program to refer these loans to the DOJ, thereby missing a vital opportunity to recover funds.

31 CFR Part 904, “Referrals to the Department of Justice,” requires agencies to promptly refer delinquent debts on which aggressive collection activity has been taken and that cannot be compromised, or on which collection activity cannot be suspended or terminated, to the DOJ for litigation. Further, these standards state that agencies shall make every effort to refer delinquent debts to the DOJ for litigation within 1 year of the date such debts last became delinquent. Treasury’s “Managing Federal Receivables” guide states that only in limited circumstances should the agency delay referral to a time when less than 1 year remains on the applicable statute of limitations for litigation. The guide also states that the agency may elect to refer a delinquent debt to the DOJ for litigation before referring the debt to cross-servicing or pursuing other administrative debt collection activities.

According to SBA, the agency does not pursue litigation unless it is cost effective and necessary to enforce collection. SBA cannot file litigation activities against borrowers and/or personal guarantors independent of the DOJ because SBA does not have litigating authority. Further, SBA stated it does not refer delinquent loans to the DOJ because Treasury’s Cross-Servicing program does. However, in fiscal year 2023, Treasury only sent 865<sup>4</sup> debts to the DOJ for litigation.

As previously stated, Treasury’s guide states that agencies should promote the resolution of delinquencies as quickly as possible because the ability to collect delinquent debts generally decreases as the debts becomes older. It is in the taxpayers’ best interest for SBA to refer delinquent debts to the DOJ rather than wait for Treasury to do so. Because Treasury has returned delinquent COVID-19 EIDLs from Cross-Servicing to SBA for servicing until March 31, 2026, SBA has an opportunity to refer delinquent COVID-19 EIDLs to the DOJ for litigation.

By not referring any COVID-19 EIDL debt to the DOJ for litigation, SBA is not exhausting all collection strategies to minimize delays and maximize recovery from borrowers and personal guarantors before referring the delinquent loans to Treasury.

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<sup>4</sup> This figure was reported in the DOJ’s Fiscal Year 2023 *Annual Civil Debt Collection Activity Report to Congress* and includes all debts referred from the entire Treasury, not just the Cross-Servicing program, and it is also not limited to COVID-19 EIDLs.



## Recommendation

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

**Recommendation 3:** Confer with the DOJ to establish a reasonable standard for referral of delinquent COVID-19 EIDLs to the DOJ for litigation.

## Evaluation of Agency Response

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SBA management provided formal written comments that are included in their entirety in Appendix 3. Management agreed with Recommendation 2 and disagreed with Recommendations 1 and 3.

## Summary of Actions Necessary to Close the Recommendations

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

### Recommendation 1

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to conduct a study to establish minimum loan thresholds for performing site visits, implement policies and procedures based on the results of that study, and perform site visits to help facilitate appropriate liquidation of collateral on defaulted COVID-19 EIDLs in an effort to maximize collections.

**Status:** Unresolved

SBA management disagreed with this recommendation, stating that the UCC liens on disaster loans are not purchase money liens, so the agency takes a best available on the business assets. Further, since SBA UCC liens, in most cases, are subordinate to existing and future purchase money and blanket UCC liens, the liquidated value of property other than real estate for a subordinate creditor would be negligible or nonexistent. Also, the inherent value in taking a general best available security interest in these circumstances is for the debt to be on record such that it will require SBA to be notified regarding sale, transfer, or bankruptcy/reorganization of the business, which may allow for future recoveries without requiring SBA to bear the cost of a foreclosure/liquidation of assets. Moreover, conducting site visits across the COVID-19 EIDL

portfolio is a manual, resource-intensive process and does not generally establish data relevant to determining recovery. Therefore, SBA does not consider the cost of a site visit to beneficially impact liquidation outcomes. According to SBA management, SBA Standard Operating Procedure 50 52 does not require a site visit for every loan classified in liquidation but may be required if SBA determines real estate foreclosure is appropriate.

This recommendation is unresolved. SBA management's response does not specifically address the recommendation to conduct a study to establish minimum thresholds for performing site visits. The agency has not provided evidence to support the assertion that the liquidated value of non-real estate property is negligible or nonexistent, site visits do not establish data relevant to determining recovery, or that the cost of a site visit is not beneficial to liquidation outcomes. Further, while Standard Operating Procedure 50 52 2 does not require a site visit, it does state that conducting site visits is a prudent lending practice. Additionally, SBA's 7(a) loan program requires lenders to perform site visits within 15 to 60 calendar days depending on the type of default.

The intent of this recommendation was not to require post-default site visits for every defaulted COVID-19 EIDL, but for SBA to conduct a study to determine the point at which performing a site visit becomes cost beneficial, and to implement policies to ensure site visits are completed to maximize collections. We will continue to seek resolution of this recommendation in accordance with our audit follow-up policy.

## **Recommendation 2**

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to verify all delinquent COVID-19 EIDL obligors are reported to credit bureaus in a timely manner.

**Status:** Resolved

SBA management agreed with the recommendation, stating that the agency will add functionality to the ETRAN system to log time/date entries for credit bureau submissions to allow for tracking of these submissions.

This recommendation will be closed once management provides evidence that they implemented the changes to the ETRAN system and appropriately reported all delinquent COVID-19 EIDL obligors to credit bureaus.

### Recommendation 3

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to confer with the DOJ to establish a reasonable standard for referral of delinquent COVID-19 EIDLs to the DOJ for litigation.

**Status:** Unresolved

SBA management disagreed with the recommendation, stating that the DCIA requires SBA to refer delinquent debts to Treasury for collection on delinquent debts. Also, SBA management states that referrals to the DOJ for collection require filing a lawsuit, which is time consuming and resource intensive, and not as effective as referral to Treasury. However, SBA will work with DOJ on loans that cannot be referred to Treasury because they involve fraud.

This recommendation is unresolved. SBA management's response does not address the recommendation as intended. Management cited that SBA refers delinquent debts to Treasury for collection and that referral to the DOJ is not as effective as referral to Treasury. However, as discussed in this report, Treasury returned delinquent COVID-19 EIDLs back to SBA from cross-servicing, and SBA is responsible for continuing collection efforts through March 31, 2026. Further, not only is referral to the DOJ a requirement of Federal Claims Collection Standards, it is also in the best interest of taxpayers for SBA to refer delinquent loans to the DOJ, rather than wait for Treasury to do so, because the ability to collect delinquent debts generally decreases as the debts become older. Lastly, management stated SBA will work with the DOJ on loans involving fraud; however, it is important to note that our review excluded loans flagged for potential or confirmed fraud.

The intent of this recommendation was not for SBA to refer every delinquent COVID-19 EIDL to the DOJ but to coordinate with the DOJ and determine what loans would be appropriate for referral. We will continue to seek resolution of this recommendation in accordance with our audit follow-up policy.

# Appendix 1: Scope and Methodology

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This report presents the results of our audit to determine the U.S. Small Business Administration's (SBA) efforts to collect on delinquent Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL). Our scope of work covered delinquent COVID-19 EIDLs that did not have suspected or confirmed fraud hold codes from March 2020 through July 2024.

To accomplish our objective, we reviewed relevant federal laws, regulations, other federal guidance, and information about the COVID-19 EIDL program found on the SBA website. We also reviewed SBA policies, standard operating procedures, and other guidance pertaining to SBA's modified processes to approve COVID-19 EIDL applications and to liquidate delinquent COVID-19 EIDLs.

We selected a judgmental sample of 15 charged-off COVID-19 EIDLs to identify SBA's processes and procedures associated with charging off delinquent debt and reviewed loan liquidation data from the agency's Capital Access Financial System. We interviewed SBA personnel from various offices in the Office of Capital Access, primarily from the COVID-19 EIDL Servicing Center, and from the Office of Performance and Systems Management responsible for the management, oversight, and execution of the COVID-19 EIDL liquidation process to gain an understanding of related procedures, practices, and system controls.

We conducted this performance audit in accordance with the Government Accountability Office's *Generally Accepted Government Auditing Standards*. These standards require that we plan and perform audits to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

## Use of Computer-Processed Data

We obtained and analyzed COVID-19 EIDL data for loans delinquent 90 days or more and charged off as of June 11, 2024. We performed limited testing on data extracts to ensure the data was complete, reliable, and met the scope parameters of this evaluation. We also performed a data reliability assessment to ensure the data materially supported the findings, conclusions, and recommendations. We believe the data was sufficiently reliable to support the findings in this report.

## Assessment of Internal Controls

Internal controls comprise the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The controls include the systems designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, and compliance with provisions of applicable laws and regulations. Internal controls serve to prevent and detect inconsistencies, significant errors, fraud, and noncompliance with provisions of laws and regulations.

We assessed SBA policies and procedures, applicable to the scope of this audit, to determine the internal controls used for compliance with laws and regulations to the extent necessary to satisfy the audit objective. We obtained and reviewed information and data from an SBA management official in the Office of Capital Access regarding SBA's procedures to assess COVID-19 EIDL liquidation processes and risks through the Quality Improvement Program.

We reviewed the United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, GAO-14-704G, which provides guidance to federal managers on designing, implementing, and operating an effective internal control system.

The internal control deficiencies we found are discussed in the "Results" section of this report. However, because our review was limited to those internal control components and underlying principles that we found significant to the audit objective, all internal control deficiencies that may have existed at the time of this audit may not have been disclosed. See Table 1-1 for the key internal control components and principles significant to the audit objectives.

**Table 1-1: Internal Controls**

Internal Control Component	Internal Control Principle
Risk assessment	Identify, analyze, and respond to risk (inherent) and assess fraud risk
Control activities	Design control activities and design activities for the information system

Source: Office of Inspector General analysis

## Prior Audit Coverage

The following lists the Office of Inspector General's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
<a href="#">23-16</a>	<i>Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans</i>	September 29, 2023
<a href="#">20-20</a>	<i>Audit of SBA's Compliance with the Debt Collection Improvement Act, as Amended</i>	September 30, 2020
<a href="#">13-18</a>	<i>The SBA Did Not Effectively Manage Defaulted Disaster Loans to Maximize Recovery from 2006 to 2011</i>	September 27, 2013
<a href="#">12-17</a>	<i>The Small Business Administration Risks Loss of Collateral for Four Disaster Loans Totaling \$5.6 Million</i>	July 31, 2012
<a href="#">12-14</a>	<i>The Small Business Administration Did Not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans in Liquidation</i>	July 9, 2012

## Appendix 2: Additional Information

We grouped the Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) data by loan value based on collateral and/or guaranty requirements for loans that were charged off as of December 18, 2024. We excluded loans that were less than \$25,000 and did not require collateral; had suspected or confirmed fraud; went through probate due to obligor death, bankruptcy, or business closure; and loans that were in, or went through, workout. A workout is an agreement between the U.S. Small Business Administration (SBA) and the borrower that restructures the material terms and conditions of the delinquent loan to enable the borrower to cure the default and improve repayment ability. As indicated in Table 2-1, we identified 369,588 loans that were in charge-off status. We also calculated the number of days each loan was in liquidation using the dates the loan entered and went out of liquidation. See Table 2-1 for the average number of days loans were in liquidation.

**Table 2-1: Charged-Off Loans and Average Days in Liquidation**

Loan Value	Number of Loans	Original Loan Amount	Charged-Off Amount	Recovery Amount	Average Number of Days in Liquidation
\$25,001–200,000	325,428	\$27,812,506,169	\$26,964,000,262	\$6,432,697	3
\$200,001–500,000	39,555	\$14,923,683,329	\$14,843,066,343	\$21,322,406	26
\$500,001–2,000,000	4,605	\$5,402,953,462	\$5,379,448,225	\$7,239,196	26
<b>Total</b>	<b>369,588</b>	<b>\$48,139,142,960</b>	<b>\$47,186,514,830</b>	<b>\$34,994,299</b>	<b>5</b>

*Note:* Charged-off COVID-19 EIDLs as of December 18, 2024.

To ensure delinquent loans were properly reported to credit bureaus, we obtained the commercial and consumer credit bureau reports that SBA submitted in December 2024. Depending on the type of obligor(s) (e.g., limited liability company, self-employed, personal guarantor) responsible for repayment of the loan, SBA may make a commercial credit bureau report, consumer credit bureau report, or both. The agency reports delinquent loans to credit bureaus at charge off, which occurs at 180 days delinquent.

Accordingly, we refined our universe of charged-off loans in Table 2-1 to include loans delinquent 180 days or more to conduct this analysis. Further, we expanded our universe by

adding back in loans that went through probate due to obligor death, bankruptcy, or business closure and loans that were in, or went through, workout since those loans were also required to be reported to the credit bureaus. Loans that had a suspected or confirmed fraud indicator remained excluded. We then matched these loans to the credit bureau reports and identified that:

- Over 94 percent of businesses with loans delinquent 180 days or more were not reported to commercial credit bureaus,
- Nearly 95 percent of sole proprietors with loans delinquent 180 days or more were not reported to commercial or consumer credit bureaus,
- One hundred percent of self-employed individuals and independent contractors with loans delinquent 180 days or more were not reported to consumer credit bureau, and,
- Over 94 percent of personal guarantors with loans delinquent 180 days or more were not reported to consumer credit bureaus (see Table 2-2).

**Table 2-2: Charged-Off Loans Reported to Credit Bureaus**

Loan Value	Businesses Reported to Commercial Credit Bureaus		Sole Proprietors Reported to Commercial or Consumer Credit Bureaus		Self-employed Individuals and Contractors Reported to Consumer Credit Bureaus		Personal Guarantors Reported to Consumer Credit Bureaus	
	Required	Actual	Required	Actual	Required	Actual	Required	Actual
\$1–25,000	169,063	8,828	163,699	8,512	103,972	0	N/A	N/A
\$25,001–200,000	221,930	12,200	83,697	4,483	29,948	0	N/A	N/A
\$200,001–500,000	33,067	2,666	6,622	427	1,539	0	47,802	2,725
\$500,001–2,000,000	4,981	403	298	18	17	0	6,972	415
<b>Total</b>	<b>429,041</b>	<b>24,097</b>	<b>254,316</b>	<b>13,440</b>	<b>135,476</b>	<b>0</b>	<b>54,774</b>	<b>3,140</b>

*Note:* Charged-off COVID-19 EIDLs as of December 18, 2024, and consumer and commercial credit bureau reports for December 2024.



## **Appendix 3: Agency Response**

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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 JI KIM Digitally signed by JI KIM  
Date: 2025.08.01 15:16:24 -04'00'  
Office of Financial Program Operations, Director  
Office of Capital Access

**Date:** August 1, 2025

**Subject:** Response to OIG Draft Report – SBA’s Collection Efforts on Delinquent COVID-19 EIDLs (Project 24804)

This report presents the results of our audit to determine the U.S. Small Business Administration’s (SBA) efforts to collect on delinquent Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL) with collateral and personal guarantors.

As of December 18, 2024, SBA charged off over \$47 billion in delinquent COVID-19 EIDLs without suspected or confirmed fraud. Less than 1 percent of the original loan amounts were recovered during SBA’s liquidation process. Recoveries included, but were not limited to, payments made by the borrower during the liquidation process or due to the borrower’s business closure, payments made due to the death of the borrower or personal guarantor, and recoveries from bankruptcy proceedings.

**Recommendation 1** – We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to conduct a study to establish minimum loan thresholds for performing site visits, implement policies and procedures based the results of that study, and perform site visits to help facilitate appropriate liquidation of collateral on defaulted COVID-19 EIDLs in an effort to maximize collections.

**SBA Response:** SBA disagrees with this recommendation to conduct a study to establish minimum loan thresholds for performing site visits; implement policies and procedures based on the results of that study; and perform site visits to help facilitate liquidation of collateral on defaulted COVID-19 EIDLs to maximize collection. Below are the reasons for SBA’s disagreement.

- Since UCC liens on disaster loans are not purchase money liens, SBA takes a best available on the business assets.
- From a collateral standpoint, SBA UCC lien in most cases is subordinate to existing and future purchase money and blanket UCC liens. The liquidated value of chattel that have priority liens is in the majority of cases negligible or non-existent for subordinate creditors. The inherent value in taking a general best available security interest in these circumstances is for SBA debt to be on record such that it will require notice to SBA regarding sale, transfer or bankruptcy/reorganization of the business which may allow for future recoveries without requiring SBA to bear the cost of a foreclosure/liquidation of assets that don't support the action.
- Conducting site visits across the COVID EIDL portfolio is a manual, resource-intensive process. A site visit does not generally establish data relevant to determining recovery, such as owned vs. leased property, current lien priority, intangible, or recoverable value of on-site assets. As such, SBA does not consider the logistics and costs associated with site visits to beneficially impact liquidation outcomes. Site visits would require cooperation from an obligor who already has been uncooperative and may require consent from a landlord.
- SBA SOP 50 52 does not require a site visit for every loan classified in liquidation. Under established guidelines, a site visit may be required if SBA determines that real estate foreclosure is the appropriate collection method. For loans with real estate, a lien search will be performed and an independent appraisal is obtained which covers site information, and is used by SBA to determine whether it is appropriate to proceed.

**Recommendation 2** – We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to verify all delinquent COVID-19 EIDL obligors are reported to credit bureaus in a timely manner.

**SBA Response:** SBA agrees with this recommendation. SBA will add functionality to SBA's ETRAN system to log time/date entries for credit bureau submissions to allow for tracking of these submissions.

Final Action Target Date: June 30, 2026

**Recommendation 3** – We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to confer with the DOJ to establish a reasonable standard for referral of delinquent COVID-19 EIDLs to the DOJ for litigation.

**SBA Response:** SBA disagrees with this recommendation. As noted in the report, the DCIA requires SBA to refer delinquent debts to Treasury. Treasury successfully collects on delinquent debts, including through the use of administrative offset. Referrals to the Department of Justice for collection require the filing of a lawsuit, which is very time-consuming and resource-intensive, and not as effective as referral to Treasury. However, SBA will work with DOJ on loans that cannot be referred to Treasury because they involve fraud.