

# Coleman Report

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## SBA Disaster Assistance Programs Overview

The California fires are personal to me, as I have many friends who have lost homes and businesses in the Altadena/Pasadena area. Do not underestimate the emotional toll your customers are experiencing; frankly, they are not in the best position at this time to make sound financial decisions.

This week's edition of the Coleman Report summarizes three programs you can utilize in servicing your SBA loan customers and professionally advising them of their alternatives:

### 1. SBA Physical Disaster Loans

These loans are best used for customers who have an insurance shortfall between what the insurance company pays and the complete cost of a rebuild.

### 2. SBA Economic Disaster Loans

EIDL loans are designed to cover expenses that your customers would have been able to handle but now can't due to the disaster. The best example is a business that is completely closed but must meet its normal monthly obligations.

### 3. Economic Bridge SBA Disaster Loans

Unfortunately, this program has expired. In reality, it is an SBA Express loan that you can fund through your normal processes.

#### SBA Physical Disaster Loans

*Eligibility:* Businesses of any size and most private non-profit organizations may apply to SBA for a loan to recover after a disaster.

*Loan Amount:* Up to \$2 million to cover disaster losses not fully covered by insurance or other sources.



**DISASTER ASSISTANCE**  
Businesses ■ Homeowners ■ Renters ■ Nonprofits

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*Use of Proceeds:* Loan proceeds may be used for the repair or replacement of the following:

- Real property
- Machinery
- Equipment
- Fixtures
- Inventory
- Leasehold improvements

*Terms:*

- First payment deferred for 12 months
- No interest accrual for the first 12 months
- For applicants unable to obtain credit elsewhere: The interest rate will not exceed 4%
- For applicants who can obtain credit elsewhere: The interest rate will not exceed 8%
- SBA will determine whether an applicant can obtain credit elsewhere

*Maturity:*

- Up to 30 years, depending on ability to repay the loan
- No pre-payment penalty or fees

*Collateral Requirements:*

- Collateral is required to the extent possible for physical damage loans over \$50,000
- Real estate is the preferred collateral
- Loans of \$200,000 or less will not require the owner of the business to use their primary residence as collateral if it is determined the owner has other assets of equal quality and of a value equal to or greater than the amount of the loan

*Wildfire Mitigation Damage:* Borrowers may borrow 20% greater of real estate value with improvements that help reduce the risk of future property damage. For wildfire mitigation:

- Install a Class A fire-rated roof
- Install 1/8" mesh screening over all vents to keep embers out of eaves and vents
- Install non-combustible gutters, fences, and gates
- Remove roof and gutter debris that can be ignited by airborne embers
- Replace single-pane windows with dual- or multi-pane tempered glass windows

## **Economic Injury Disaster Loan**

SBA provides loans to help cover the costs and expenses that a small business would have been able to handle if the disaster did not happen.

*Eligibility:* Businesses must meet the following criteria to qualify for economic injury:

- The business was directly impacted by the disaster
- The business cannot cover expenses due to the disaster and/or debt payments
- The business was physically located in the declared disaster area
- The business has sustained substantial economic injury

Substantial economic injury means the business is unable to meet its financial obligations and pay its regular and necessary operating expenses.

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EIDL provides the necessary working capital to help small businesses impacted by a disaster survive until normal operations resume.

EIDL assistance is available only to small businesses when SBA determines they are unable to obtain credit elsewhere.

A separate SBA Disaster Assistance program known as business physical disaster loans covers property damage. A business may qualify for both an EIDL and a physical disaster loan. The maximum combined loan amount is \$2 million.

#### *Use of Proceeds:*

- Working capital and normal expenses such as the continuation of health care benefits, rent, utilities, and fixed debt payments
- EIDL funds cannot be used for expanding facilities, buying fixed assets, repairing physical damages, refinancing debt, paying out dividends or bonuses, or paying back loans to stockholders or principals

#### *Terms:*

- First payment deferred for 12 months
- No interest accrual for the first 12 months  
The interest rate will not exceed 4%

#### *Maturity:*

- Up to 30 years, with repayment term to be determined by ability to repay the loan
- No pre-payment penalty or fees

#### *Collateral Requirements:*

- Required for loans over \$50,000
- Real estate is the preferred collateral. Loans of \$200,000 or less will not require the owner of the business to use their primary residence as collateral if it is determined the owner has other assets of equal quality and a value equal to or greater than the amount of the loan.

#### **SBA Express Bridge Disaster Loan Program**

The SBA Express Bridge Loan program, which allowed lenders to provide interim financing of up to \$25,000 for their small business customers, has expired.

In reality, the Bridge Loan program was no different from any other SBA Express program. Lenders did not receive a higher guarantee percentage or any additional benefits associated with this program.

I will discuss this program further in the January 2025 monthly Coleman Report Zoom call. For now, lenders can still quickly secure funding for their customers through the standard SBA Express program.

