



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

December 28, 2023

The Honorable Roger Williams
U.S. House of Representatives
Chairman, Committee on Small Business
Washington, D.C. 20515

The Honorable Jeanne Shaheen
United States Senate
Chairman, Committee on Small Business
Washington, D.C. 20510

The Honorable Nydia Velazquez
U.S. House of Representatives
Ranking Member, Committee on
Small Business
Washington, D.C. 20515

The Honorable Joni Ernst
United States Senate
Ranking Member, Committee on
Small Business
Washington, D.C. 20510

Dear Chair Williams and Shaheen and Ranking Member Velazquez and Ernst:

Thank you for your continued support of SBA's pandemic loan portfolio including the Paycheck Protection Program (PPP) and COVID Economic Injury Disaster Loan (COVID EIDL). As we have shared with your teams and committed to in collaboration with the Inspector General, the SBA has performed a more recent analysis of the debt performance of the portfolio as part of our ongoing management and protection of taxpayer funds. Our aim is to leverage as many collection steps as are financially beneficial. I am writing to inform you that with this latest analysis, and using recent, updated data, SBA's debt collections forecast for the PPP and COVID EIDL portfolio now show a likely positive return to the taxpayer with a referral to the Department of Treasury, the final step of collection. SBA will begin referring PPP and COVID EIDL small business borrowers with loans under \$100,000 in default to the Treasury for IRS-led and third-party collection activities. As you are aware, currently those with loans \$100,000 and over in default are already referred to the Treasury.

SBA continually monitors all of our loan portfolios, including PPP and COVID EIDL, through regular reporting and sophisticated financial modeling. This work is especially critical for PPP and COVID EIDL because both programs were the first of their kind. Given the unique nature of these programs, SBA took careful consideration to find the best course of action to appropriately manage limited taxpayer resources while supporting the small businesses who fell on difficult times during the pandemic. SBA fully exhausts all collection tools at its disposal including direct customer outreach, collateral and personal guarantees, credit reporting, and CAIVRS/ Treasury Do Not Pay lists, among others (please refer to attached *How SBA Collects* for full details). In the spring of 2022, SBA analyzed the cost effectiveness of the final step of collection, which is Treasury referrals, on loans under \$100,000 and found the activities would cost taxpayers more to collect than the anticipated amount recovered due to the unique statutory components of these COVID programs. Accordingly, I executed my authority under section 3711 of the Debt Collection Improvement Act of 1996.

Nothing about that 2022 process on \$100,000 and under loans changed SBA's fundamental position that every borrower who takes a loan from SBA should pay it back or comply with the requirements for forgiveness, in the case of PPP. That is why SBA has always continued to collect on all loans and communicate the consequences from nonpayment.

Additionally, please note that the above discussion does not apply to fraudulent activity. Please be reminded that all identified fraudulent and likely fraudulent loans are referred to the Office of the Inspector General for appropriate collection through law enforcement—following every legally permissible step to collect. All other loans without indicia of fraud follow the steps outlined in the attachment *How SBA Collects*, which we shared with your offices earlier this year. To date, SBA has made more than 75.2 million phone calls to support repayment and collection. SBA has sent a letter to every active COVID EIDL borrower the month before the end of their deferment to remind them of their payment obligation. SBA has sent more than 9 million collection letters in addition to 1.4 million due process letters and other borrower communication. SBA has worked intently with its lending partners to ensure compliance with PPP forgiveness protocols and/or loan performance without forgiveness. SBA has continued evaluating the PPP and COVID EIDL portfolios, and a December 2023 analysis showed the cost of collecting the claim through the Treasury Department is not likely to be more than the amount recovered. The outcome rests on updated data that was not available in early 2022.

SBA manages our programs through data-driven decision making, acting in the best interest of America's small businesses and prudent use of federal resources from America's taxpayers. With this updated analysis, SBA is implementing step 14 for all COVID EIDLs and Step 9 for all PPP loans, see the attachment (*How SBA Collects*).

I also want to emphasize that SBA, the House and Senate Small Business Committees, and all of our partners must continue to do all that is possible to provide clarity to small businesses who were confused by misleading reporting in the press on SBA's debt collection activities under \$100,000 and their responsibilities as PPP or COVID EIDL borrowers. This includes the 77,000 small businesses in Texas, the nearly 2,000 small businesses in New Hampshire, the 3,100 small businesses in Iowa, and the nearly 63,000 small businesses in New York who are currently in default of their COVID EIDLs and will be impacted.

These businesses include stories like the restaurateur who invested their savings in their culinary dream and opened their doors in January of 2020 only to face significant hardships during the COVID-19 pandemic and the stylist who finished cosmetology school and felt that her business had just hit its stride in late 2019 but had to stay at home to support her young children once daycares closed. Stories like these show the types of entrepreneurs whose businesses did not make it through the pandemic and who will need help as they navigate not only the impact to their credit and future ability to borrow from any federal program, but soon the additional collection activities they may be subject to from the IRS and third-party debt collectors.

To support small businesses like these, I am establishing a 60-day goodwill exemption period in January and February 2024 to support borrowers in reentering repayment. SBA will also conduct a comprehensive outreach campaign to inform them of this opportunity. This is also in the best interest of the taxpayer, because bringing small businesses back into repayment is the best way to optimize the probability of collecting on outstanding loans. I hope the House and Senate Small Business Committee will join me in ensuring there is clarity in our messaging so that our small businesses can take advantage of this opportunity.

The temporary pandemic relief programs were a critical lifeline for millions of small businesses through the pandemic, providing an economic foundation that allowed America to recover faster and stronger than other countries around the world. SBA's continued effective management of the pandemic programs is critical to the success of America's small business economy, and we look forward to working with you to ensure strong federal support for our important mission.

Sincerely,

A handwritten signature in blue ink that reads "Isabel Casillas Guzman". The signature is fluid and cursive.

Isabel Casillas Guzman
27th Administrator
U.S. Small Business Administration