



SMALL BUSINESS ADMINISTRATION (SBA) LOANS

For Businesses

Following a major disaster, small businesses may qualify for two types of SBA disaster loans: **physical disaster loans** and **economic injury disaster loans (EIDL)**. A physical disaster loan is available for businesses that need to repair or replace property or equipment damaged by a declared disaster. An EIDL is available to small business owners that have suffered **substantial economic injury** as a result of a disaster, even if no physical damage occurred.

What are physical disaster loans?

Physical disaster loans are available to businesses of all sizes. There are two instances when physical damage that can make a business eligible for a physical disaster loan. The first is when a business owns real property (buildings or land) or personal property (machinery, equipment, etc.) that was damaged in a disaster. The second instance is when a business owner rents space damaged in a disaster and is contractually obligated under the lease to make repairs. If there is no such requirement in the lease, then the building owner, not the business owner is the eligible loan recipient.

Eligible businesses may qualify for up to \$2 million in economic relief to cover their losses. Businesses may use physical disaster loans to repair or replace real property, machinery, equipment, fixtures, inventory, and leasehold improvements. Loans may also be used to upgrade or expand a business during reconstruction, but only if such upgrades are required by building codes.

The first payment for a physical disaster loan is due one year after obtaining it. No interest accrues during that one-year period. Although the SBA can grant up to a maximum of 30 years to repay the loan, they are not required to do so and will decide the actual loan term during the loan approval process.

A business owner's interest rate on their loan will depend on whether they are eligible for loans elsewhere. If the SBA determines that a business **can obtain credit elsewhere**, then the interest rate can be up to 8%. If the SBA determines that the business **cannot obtain credit elsewhere**, then the interest rate may only go up to 4%.

Do business owners need to put up physical disaster loan collateral?

Whether a business owner needs to put up any collateral for their physical disaster loan depends on the type of disaster declaration issued. If the disaster was declared by the president and the total amount of loans is over \$50,000, then the SBA requires collateral. If the disaster was declared by the SBA administrator and the total amount of loans is over \$14,000, then the SBA requires collateral. If an eligible business owner obtains a loan of less than \$200,000, they may not be required to use real estate as collateral, provided they have other assets equal to or greater than the loan amount. For example, if an owner takes out a physical disaster loan of \$60,000 and has a work truck worth \$60,000 then that owner may use the work truck as collateral rather than real estate. It is important to note that a business will not be denied a loan because they do not have sufficient collateral.

What is mitigation assistance?

Mitigation assistance allows borrowers to increase the amount on their loan to protect their property from future disasters. Through physical disaster loans, eligible business owners may

borrow up to 20% more than the physical damage caused in order to pay for mitigation assistance. For example, an owner whose business sustained damages from a hurricane may apply, on top of their original physical disaster loan, for mitigation assistance to install hurricane shutters. This option is not available for EIDLs.

What are economic injury disaster loans?

Unlike physical disaster loans, **only small businesses** may be eligible for EIDLs. The business must have suffered a **substantial economic injury**. Business owners may obtain an EIDL even if their business has not sustained any physical damage from the disaster as long as they have suffered a certain level of economic harm. Furthermore, a business owner is only eligible for an EIDL if they cannot obtain credit from other sources. Examples of credit from other sources could include loans from credit unions or private loans provided that they are offered on reasonable terms. To qualify for an EIDL, an owner's business must be directly impacted by the disaster, be located within the disaster area, and that owner must be unable to cover damages or debt payments due to the disaster.

How does the SBA determine the business size and substantial economic injury?

When determining whether a business qualifies as a small business the SBA factors in the type of industry, the number of employees, and the annual revenue. It is important to make sure in advance if you qualify as a small business depending on these factors. The SBA has posted a size table on their website to help business owners determine their eligibility, which can be found at <https://www.sba.gov/document/support-table-size-standards>. Furthermore, the SBA has provided a size standards tool which can be used to find out if a business qualifies as a small business and can be found here: <https://www.sba.gov/federal-contracting/contracting-guide/size-standards/size-standards-tool>.

A business owner has suffered a substantial economic injury when the disaster causes a small business to be unable to pay its financial obligations and its regular and necessary operating expenses. In that case, it may be eligible for an EIDL. Examples of financial obligations include rent payments, insurance premiums, wages, other loan payments, etc.

What are the limits and permitted uses of EIDLs?

Although the maximum that a small business can borrow in EIDLs is \$2 million, loan amounts will vary depending on the business's financial need and the financial impact from the disaster. The loans can only be used for working capital and normal expenses. Funds are intended to help a business continue operating despite economic injury from the disaster and can be used for expenses like employee wages, rent, etc. A business owner is not allowed to use the funds to expand or upgrade their business, refinance existing debt, or repair physical damage (which a physical disaster loan can be used for).

What are the terms and timeline of EIDLs?

Just as with a physical disaster loan, the first payment is due a year after obtaining the loan and a business owner does not have to pay any interest for that first year. The SBA is not allowed to charge more than 4% interest rate for an EIDL. Although the SBA may offer up to a maximum of 30 years to repay the loan, it is not required to do so. The period of time that the SBA grants a business will depend on that business's financial condition and the amount borrowed.

Do business owners need to put up collateral for EIDLs?

A business owner only needs to put up collateral for an EIDL if the combined EIDL loan amount is over \$50,000. For example, if a business received a \$20,000 EIDL for Disaster A, no collateral would be required. However, if the business later received a \$40,000 EIDL for a separate disaster (Disaster B), bringing the total EIDL amount to \$60,000, the SBA would require collateral since the combined EIDLs exceed the \$50,000 threshold. The SBA will not decline a loan due to lack of sufficient collateral. However, if a business refuses to put up available collateral, then they may decline the loan. Like a physical disaster loan, if an eligible party obtains a loan of less than \$200,000, they may not be required to use real estate as collateral, provided they have other assets equal to or greater than the loan amount.



**LEARN
ABOUT OUR
RESOURCES
HERE**



RESOURCES

Find your disaster declaration at FEMA's disaster declaration website: www.fema.gov/disaster/declarations

Find Louisiana's disaster response information at The State of Louisiana's Governor's Office of Homeland Security and Emergency Preparedness: gohsep.la.gov

Author: P. DiPaola, N. Pace, M. Daigle, C. Franze, and D. Seibert.

All information current as of September 2025.