



SMALL BUSINESS ADMINISTRATION (SBA) LOANS

For Homeowners and Renters

The Small Business Administration (SBA) provides low-interest disaster recovery loans to homeowners, renters, businesses, and nonprofits impacted by federally declared disasters.

The SBA offers three types of disaster relief: (1) home and personal property loans, (2) business physical disaster loans, and (3) economic injury disaster loans (EIDLs).

Home and personal property loans are used to replace or repair damage to a homeowner's primary residence or a borrower's personal property. **Business physical disaster loans** are available to businesses that own property or equipment which have been physically damaged by a disaster. **EIDLs** provide financial relief to small businesses, small agricultural cooperatives, and private nonprofits when a disaster has caused economic harm to their business. Unlike business physical disaster loans, a party does not need to have physical property damage to qualify for an EIDL. An EIDL is based solely on economic injury.

What SBA loan am I eligible for as a homeowner or renter?

As a homeowner you may be eligible for certain SBA loans. While the SBA was originally created to assist small businesses, it now offers disaster loans to homeowners and renters after federally declared disasters. In fact, most SBA disaster loans go to homeowners.

Homeowners may be eligible for home and personal property disaster loans. To be eligible for a **home disaster loan** to repair or replace your structural property, the loan must be for the borrowers primary residence. Although renters are not eligible for home disaster loans, they may be eligible for **personal property loans** if they live in a federally declared disaster area and show proof of residence. A **personal property disaster loan** is used to repair or replace personal property like furniture, appliances, vehicles, and other items that are destroyed in a declared disaster but are not part of the home's structure.

Does my home have to be in a declared disaster area?

You may be eligible for an SBA disaster loan if your home is located in an area that has received a Presidential Major Disaster Declaration with Individual Assistance.

While SBA loans are available in various situations, they are also offered following a major disaster. Once the president declares a disaster, homeowners and renters can qualify for low-interest loans from the SBA to help repair or replace damaged property.

You may still be eligible for a home disaster loan if you plan to move out of the disaster area, but only if you are moving for **special or unusual circumstances**.

Special or unusual circumstances includes: a risk that the area will suffer future disasters, a change in employment status, medical reasons, special family considerations that require you to move.

If local officials do not allow you to repair your home and you are then forced to move, the SBA will classify your property as a total loss and issue a loan sufficient to replace your residence at a new location.

For more information on disaster declarations please refer to Factsheet #1, *Major Storm Disaster Declarations*, in the Louisiana Sea Grant Disaster Aid factsheet series.

When am I not eligible for a home and personal property loan?

The following are several instances in which a borrower is not eligible for home loans:

1. You have been convicted of a felony in the past year in connection with the declared disaster.
2. You voluntarily acquired more than 50% of the ownership interest in the property after the disaster occurred and there was no sale of contract before the time of disaster.
3. You can repair the property with insurance, gifts, or other compensation. If you receive these types of compensation before acquiring SBA loans, then they must be deducted from claimed losses. If you received compensation after acquiring SBA loans, then they must be used as principal payments for the SBA loans.
4. SBA determines you assumed the risk. For example, if an earlier SBA loan required you to purchase flood insurance and you failed to do so, you may be determined to have assumed the risk.
5. Your damaged property is not your primary residence.
6. Your damaged property is considered a recreational vehicle. This can include boats and motorhomes.
7. The replacement value of your personal property is not easily verifiable or exceedingly high.
8. You or other principal owners are presently incarcerated.
9. Your only interest in the damaged property is in the form of a security interest, mortgage, or deed of trust. This refers to those that do not own or live in the house.

For example, this would disqualify a lender who solely has a mortgage on the property, or someone who secured a deed of trust but does not live in or own the house. If someone has inherited the house and lives in it, even partially, then they may still be eligible for SBA disaster loans.

Are there restrictions on how I can use SBA disaster loan funds?

Yes. You can't use the funds to: Upgrade or expand your home, replace secondary or vacation homes or recreational property, or pay off credit cards or pre-existing debts. However, loans can include up to 20% extra for improvements that reduce future disaster risk.

A homeowner can borrow up to \$500,000 to repair or replace their primary residence. For personal property, homeowners or renters can apply up to \$100,000 of loans.

You can still apply even if you have already received insurance payments. SBA loans can help cover costs not fully paid by insurance. You cannot use both sources to pay for the same exact loss, but you can combine them to meet your total recovery needs.

During a presidential declaration, collateral is required for loans over \$50,000. Real estate is the preferred type of collateral, even if the equity is not enough to secure the whole loan.

It is important to note that the SBA will not automatically deny your loan if you lack sufficient collateral.

What is the process for repaying the loan?

There is a grace period before you must start repaying the loan. The first payment is deferred for 12 months, and no interest accrues during that period. After the grace period, you will make monthly installments of principal and interest.

After obtaining a home and personal property loan, you may have a maximum of a 30-year loan maturity rate to pay off the loans. The SBA will determine the loan maturity and repayment terms based on financial need.

What is the interest on SBA disaster loans?

If you cannot find credit elsewhere, then there is a 4% cap on the disaster loans' interest rate, but can be set at a lower rate. **If you can find credit elsewhere**, then the maximum interest rate you can be charged on your loan will be 8% per year. So, if you do not have access to other non-SBA loans, then you will qualify for a lower interest on your SBA disaster loan.

How does the SBA determine your access to credit elsewhere?

The SBA generally determines you have credit elsewhere if you can obtain non-federal funding on reasonable terms after the disaster is declared. SBA may factor your credit score into this consideration.

Can you use an SBA disaster loan to refinance a mortgage?

If you can't get credit elsewhere, your home has suffered substantial uninsured damage, and you are planning to repair that damage then you may be able to use an SBA disaster loan to refinance your existing mortgage on a damaged home. When paying back your loan, you will pay back the disaster loan including the refinanced mortgage, at the lower interest rate in one payment to the government.

Why SBA disaster loans?

With no interest and no payments during the first year, followed by low, fixed interest rates over a 30-year term, SBA disaster loans significantly improve homeowners' chances of financial recovery. There is also no prepayment penalty if you choose to pay off your loans early and you may even begin paying off your loans during the one-year deferment period.

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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.

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