

Frequently Asked Questions about Physical Disaster Business Loans

Q. How much can I borrow?

A. The amount of money that the SBA will lend you will be based upon the actual cost of repairing or replacing your home and/or personal property, minus any insurance settlements or other reimbursements or grants. The total loan amount is subject to the limits set out above.

Q. Must I use my own money or try to borrow from a bank before coming to the SBA?

A. No.

Q. I already have a mortgage on my home. I can't afford a disaster loan plus my current mortgage payment. Can the SBA refinance my mortgage?

A. In certain cases, yes. The SBA can refinance all or part of prior mortgages, evidenced by a recorded lien, when the applicant: 1) does not have credit available elsewhere; 2) has suffered substantial uncompensated disaster damage (40 percent or more of the value of the property); and 3) intends to repair the damage. An SBA disaster loan officer can provide more detailed information on your specific situation.

Q. What information do I need to submit for a home and/or personal property loan?

A. The necessary information is specified in the loan application. In all cases, it includes an itemized list of personal property losses with the repair or replacement cost of each item. It also includes permission for the IRS to give the SBA information from your last two federal income tax returns. If you have pictures of the damaged property, you can include them as well.

Q. Will the SBA check the losses I claim?

A. Yes. Once you have returned your loan application, an SBA loss verifier will visit you to determine the extent of the damage and the reasonableness of the loan request.

Q. How soon will I know if I qualify for a loan?

A. That depends on how soon you file a complete SBA loan application. The SBA disaster relief program is not an immediate emergency relief program such as Red Cross assistance, temporary housing assistance, etc. It is a loan program to help you in your long-term rebuilding and repairing. To make a loan, we have to know the cost of repairing the damage, be satisfied that you can repay the loan, and take reasonable safeguards to help make sure the loan is repaid. The SBA loan application asks for the information we need. The faster you return it with all the needed information, the faster we can work on it. We try to make a decision on each complete application within seven to 21 days. Applications filed early can be completed in a much shorter time. We process applications in the order received, so file early. Be sure your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect the money?

A. Loans over \$14,000 have to be secured. We won't decline a loan just because you do not have enough collateral, but we do ask for whatever collateral is available. This means that after a loan is approved there are other steps you must take. Usually, the security consists of a first or second mortgage on the damaged real estate. After we approve the loan, we will tell you what documents are needed to close the loan. You return the loan-closing documents to us, we can order the checks. You will receive the money in installments as you need it to repair or replace the damage.

Q. Should I wait for my insurance settlement before I apply to the SBA?

A. No. If you do not know how much of your loss will be covered by insurance or other sources, the SBA will consider making a loan for the full amount of the loss, up to our loan limits, provided that you assign the insurance check to the SBA to reduce the amount of the loan.

Q. I would like to get a contractor's estimate for the cost of repairing damage to my home, but I'm having trouble finding one. Should I hold up my application until I get the estimate?

A. No. You might miss the deadline for filing your application while waiting for a contractor's estimate. If you have an estimate, include it. The SBA will verify any damage estimates listed on your loan application. Also, the sooner you file a completed application, the sooner the SBA can process it.

Q. If I receive a disaster loan, may I spend the money any way I want?

A. No. The disaster loan is intended to help you return your property to the same condition it was in before the disaster. Your loan will be made for specific and designated purposes. Remember that the penalty for misusing disaster funds is immediate repayment of one-and-a-half times the original amount of the loan. The SBA requires that you obtain receipts and maintain good records of all loan expenditures as you restore your damaged property and that you keep these receipts and records for three years.

Q. If my home is completely destroyed, can the SBA lend me money to relocate my home somewhere else?

A. If you are unable to obtain a building permit to rebuild or replace your home at its original site, the cost of relocating your home might be included in the loan amount. If, however, you decide to relocate your home without being required to, an SBA loan can be obtained only for the exact amount of the damage. SBA can not make loans involving some relocations. An SBA disaster loan officer can provide more detailed information on your specific situation.

Q. I am a farmer. My home was damaged, and so were my barns, fences, and some of my crops. Am I eligible to apply for SBA assistance?

A. You may apply to the SBA for a loan to cover the damage to your home and its contents only. But it may be in your interest to seek assistance first from the U.S. Department of Agriculture for all your damage.

Q. Are secondary homes or vacation homes eligible for loans?

A. No, not as homes. They may be eligible for business disaster loans under certain conditions.

Q. Are there any other limitations?

A. Yes. Generally, loans will not be made for damage to personal pleasure boats, planes, recreational vehicles, antiques, collections, etc. Also, amounts for landscaping, family swimming pools, etc., are limited.

Q. Is there a minimum monthly payment, and when would the first payment be due?

A. The SBA does not have a minimum monthly payment. Payments vary depending upon income and expenses, size of family and other circumstances that may affect your repayment ability. Generally, the first payment is not due until five months after the date of the loan.

Q. I had to remove debris from my property after the disaster. Can this expense be included in my loan application?

A. Yes, but your own labor and that of family members cannot be included. Amounts paid to others and any equipment rental can be listed as part of repairs to real estate. Remember that the maximum loan limit on real estate damage is \$200,000, and debris removal is included in the limit.

Q. May people over the age of 65 apply for help from the SBA?

A. Yes. Loans are made without regard to age.

Q. I've heard that SBA loan applications are complicated and hard to complete. Is this true?

A. No. The application form asks you the same information that any bank would request before lending you money. If you need help, SBA disaster personnel are available to explain the forms and give you assistance at no charge. You may use the services of accountants or attorneys if you wish, but be sure they are reliable and that their fees are reasonable. If you choose to use an attorney or an accountant, you must report those fees on your SBA loan application form.

Q. Are damages to cars and mobile homes eligible?

A. Generally, yes. The loan would be only for uninsured losses.

Q. Do I need flood insurance to get a loan?

A. If you are in a special flood hazard area, you must have flood insurance before we can disburse a loan. The amount of insurance required is the insurable value of the property in the special flood hazard area but not to exceed the maximum flood insurance available under the National Flood Insurance Act.

Frequently Asked Questions about Physical Disaster Business Loans:

Q. I've heard that SBA loan applications are complicated and hard to complete. Is this true?

A. No. The application form asks you for the same information about the business and its substantial owners and managers that generally is required for a bank loan. If you need help, SBA personnel will explain the forms and give you assistance at no charge. You may use the services of accountants, attorneys or other representatives if you wish, but be sure they are reliable and that their fees are reasonable. You must report the use of a representative and the fees charged on your loan application.

Q. If I receive a disaster loan, may I spend the money any way I want?

A. No. The disaster loan is intended to help you return your property to its pre-disaster condition and, under certain circumstances, for mitigating devices. Normally, SBA funds cannot be used to expand or upgrade a business. If, however, city or county building codes require such upgrading, then you can use the SBA loan for that purpose. Your loan will be made for specific and designated purposes. Remember that the penalty for misusing disaster funds is immediate repayment of one-and-a-half times the original amount of the loan. The SBA requires that you obtain receipts and maintain good records of all loan expenditures as you restore your damaged property, and that you keep these receipts and records for three years.

Q. I already have a mortgage on my business or private, non-profit organization. Can the SBA refinance my mortgage?

A. In certain cases, yes. The SBA can refinance all or part of prior mortgages, evidenced by a recorded lien, when the applicant: 1) does not have credit available elsewhere; 2) has suffered substantial, uncompensated disaster damage (40 percent or more of the value of the property); and 3) intends to repair the damage. An SBA loan officer can provide you with more detailed information on your specific situation.

Q. Is collateral required for these loans?

A. Loans of \$14,000 or less do not require collateral. Loans in excess of \$14,000 require the pledging of collateral to the extent it is available. Normally the collateral would consist of a first or second mortgage on the damaged business property. In addition, personal guaranties by the principals of a business are required. The SBA will not decline a loan for lack of collateral, but you must pledge available collateral.

Q. When will I know if I get the loan?

A. That depends on when you file a complete SBA loan application. To make a loan, we must estimate the cost of repairing the damage, be satisfied that the business can repay the loan from its operations and take reasonable safeguards to help ensure that the loan is repaid. Since we process applications in the order received, the faster you can return it with all the needed information, the faster we can work on it. We try to make a decision on each application within seven to 21 days. Be sure the information in your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect the money?

A. After we approve the loan, we will tell you what documents are needed to close the loan. Once we receive these documents, we can disburse the funds. Because our disaster loans are subsidized, the SBA provides the money in installments, as you need it to repair or replace the damage.

Q. Will the SBA check the losses I claim?

A. Yes. Once you have returned your loan application, an SBA loss verifier will visit you to determine the extent of the damage and the cost to repair or replace it.

Q. What information do I need to help me complete the loan application form?

A. Necessary information is specified in the loan application and includes: a) an itemized list of losses with your estimate of the repair or replacement cost of each item; b) a copy of certain federal income tax information (as specified on the application); c) a brief history of the business; and d) personal and business financial statements. A contractor's estimate for repairing structural damage may be desirable, but you may make your own cost estimate if you wish. Remember to sign and date each part of the application; we cannot process it if you omit any form that requires your signature.

Q. I had to remove debris from my property after the disaster. Can this expense be included in my loan application?

A. Yes, but your own labor and that of family members cannot be included. Amounts paid to others and any equipment rental can be listed as part of repairs to real estate. Remember that the maximum loan limit on physical damage is \$2.0 million, and debris removal is included in that limit.

Q. I am a farmer. Am I eligible to apply for SBA assistance for damage to my farm?

A. No, not for damage to farms. However, you may apply to the SBA only for a loan to cover the damage to your home and its contents. It may be in your interest to seek assistance first from the U.S. Department of Agriculture.

Q. I would like to get a contractor's estimate for the cost of repairing damage to my business, but I'm having difficulty in finding a contractor. Should I hold up my application until I get the estimate?

A. No. You might miss the deadline for filing your application by waiting for a contractor's estimate. If you have a contractor's estimate, include it; otherwise include your own. The SBA will verify the damage estimate in your application. The sooner you file a complete application, the faster the SBA can process it.

Q. Should I wait for my insurance settlement before I file my loan application?

A. No. Don't miss the filing deadline by waiting for an insurance settlement. The application should be returned to the SBA right away; final insurance information can be added when a settlement is made. We can approve a loan for the total replacement cost; however, you must assign the insurance proceeds to the SBA settlement.

Q. Must I use my own money or try to borrow from a bank before I come to the SBA?

A. No. The resources of the business and its principals will be considered in determining the ability of the business to obtain credit elsewhere.

Q. If my business is completely destroyed, can the SBA lend me money to relocate my business?

A. Yes. In certain circumstances, limited relocation costs can be included in the loan amount. Whenever relocation is involved, you should contact the SBA disaster office before making any commitments.

Q. Besides the damage to my property, my small business or private, non-profit organization suffered economically from the disaster. Do SBA disaster loans cover these economic losses?

A. Yes they do, but only if (1) your business qualifies as small as defined by the SBA (private, non-profit organizations of any size are eligible), and (2) you and your business or private, non-profit organization do not have credit available elsewhere.. The same application is used together with a supplementary form for the economic injury. The maximum amount the applicant and any affiliates may borrow for any one disaster is limited to \$2.0 million for both physical damage and economic injury combined.

Q. Is flood insurance needed to get a loan?

A. If the applicant is in a special flood hazard area, or if the disaster damage was caused by flooding, it must have flood insurance before we can disburse a loan. If the applicant was legally required to maintain flood insurance but did not, then the SBA will not make a disaster loan.

Frequently Asked Questions about Economic Injury Disaster Loan

Q. How may I use an EIDL?

A. The loan will provide you with operating funds until your business or private, non-profit organization recovers. To the extent you could have made payments had the disaster not occurred, you may use the loan to make payments on short-term notes, accounts payable and installment payments on long-term notes.

Q. How much money may I borrow?

A. You may request an EIDL for the amount of economic injury and operating needs, but not in excess of what your business or private, non-profit organization could have paid had the disaster not occurred. In determining your eligible amount, the SBA will look at:

- * the total of your debt obligations;
- * operating expenses that mature during the period affected by the disaster, plus the amount you need to maintain a reasonable working capital position during that period;
- * and expenses you could have met and a working capital position you could have maintained had the disaster not occurred.

The amount of your economic injury does not automatically represent the dollar amount of your loan eligibility; the SBA will evaluate the information you provide and determine the reasonableness of your loan request.

Q. Must I submit a personal financial statement with my loan application?

A. Yes. The SBA must review your financial statement and one for each partner, officer, director and stockholder with 20 percent or more ownership. The SBA requires the principals of the business to personally guarantee repayment of the loan and, in some instances, to secure the loan by pledging additional collateral.

Q. Must I sell assets that are not used in my regular business operations before I am eligible for an EIDL?

A. The SBA will review the availability of such assets to determine if part or all of your economic injury might be remedied by using such assets. The business and its principal owners must use their own resources to overcome the economic injury to the greatest extent possible without causing undue hardship.

Q. If I can borrow from a bank, am I still eligible for SBA assistance?

A. Private credit sources must be used as much as possible to overcome the economic injury. The SBA can provide EIDL assistance only to the extent the business (and its principals) cannot recover by using its own resources and normal lending channels.

Q. What are some prohibited uses of an EIDL?

A. You may not use funds to pay cash dividends or bonuses, or for disbursements to owners, partners, officers or stockholders not directly related to the performance of services for the business. The SBA will not refinance long-term debts or provide working capital that was needed by the business prior to the disaster.

Q. Is collateral required for an EIDL?

A. Collateral is required for all EIDL loans over \$5,000. SBA takes real estate as collateral where it is available. Applicants do not need to have full collateral; SBA will take what is available to secure each loan.

Q. How long will I have to pay off the SBA loan?

A. The SBA will assess your financial situation and will set loan terms based on your needs and repayment ability. The maximum maturity for disaster loans is 30 years.

Q. What kind of documentation should I use to show my losses?

A. In order for the SBA to compare your financial condition and operating results preceding the disaster with those during and since the disaster period, you must furnish balance sheets and operating statements for similar periods of time. The specific requirements are contained in the EIDL application form.

Q. If I receive an EIDL, may I spend the loan money any way I want?

A. No. An EIDL is intended to help you maintain a secure financial condition until your business is back to normal. Your loan will be made for specific and designated purposes. Remember that the penalty for misusing disaster funds is immediate repayment of one- and-a-half times the original amount of the loan. The SBA requires that you keep receipts and good records of all loan expenditures for three years following receipt of your SBA loan.

Q. May I expand my business facilities or purchase a new line of inventory with an EIDL?

A. No.

Q. If I show the SBA that I am not making a profit, is that enough to qualify me for an EIDL?

A. No. Neither lack of profit or loss of anticipated sales alone is sufficient to establish substantial economic injury. Substantial economic injury occurs only when you cannot meet current obligations because of the disaster. Indicators of economic injury might be a larger than normal volume of receivables, a lower sales volume, slow inventory turnover, and the development of delinquencies in trade payables, current accruals and debt payments.

Q. Are private, non-profit organizations eligible for an EIDL?

A. Yes, except that religious and certain other private, non-profit organizations are not eligible.

Q. How soon will I know if I get the loan?

A. That depends on how soon you file a complete SBA loan application. We must calculate the amount of economic injury and the working capital and other needs of your business or private, non-profit organization. We must be satisfied that you can repay the loan out of business operations, and we must take reasonable safeguards to help ensure the loan is repaid. The SBA loan application asks for the information we need. Since we process applications in the order received, the faster you can return it with all the needed information, the faster we can work on it. We try to make a decision on each application within 21 days. Be sure the information in your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect the money?

A. Loans greater than \$5,000 have to be secured. After we approve a request, we will tell you what documents are needed to close the loan. When we receive these documents, we can order the checks. You will receive the money in installments, as it is needed.

Q. Is flood insurance needed to get a loan?

A. If the business is in a special flood hazard area, it must have flood insurance before we can disburse a loan. If the business was legally required to maintain flood insurance but did not, a disaster loan will not be made.

Frequently Asked Questions about Military Reservist Economic Injury Disaster Loans

Q. I've heard that SBA loan applications are complicated and hard to complete. Is this true?

No. The application form asks you for the same information about the business and its substantial owners and managers that generally is required for a bank loan. If you need help, SBA personnel will explain the forms and give you assistance at no charge. You may use the services of accountants, attorneys, or other representatives if you wish, but be sure they are reliable and that their fees are reasonable. You must report the use of a representative and the fees charged on your loan application.

Q. Must I use my own money or try to borrow from a bank before I come to SBA?

No. The resources of the business and its principals will be considered in determining the ability of the business to recover without the assistance of the Federal government.

Q. When should I apply for the loan?

As the program applies to military conflicts occurring or ending on or after March 24, 1999, small businesses that meet all the other eligibility requirements have until November 24, 2001 to apply. Otherwise, the filing period begins on the date the essential employee is ordered to active duty and ends 90 days after the date the essential employee is discharged or released from active duty.

Q. What documentation do I need to give SBA to apply for this type of loan?

The filing requirements are listed at the beginning of the application (SBA Form 5R). In addition to the financial information required you would normally submit for any loan, your application package must also include the following:

- a copy of the essential employee's "orders" for active duty or copy of their discharge or release papers from active duty status
- a statement from the small business owner that the reservist is essential to the day-to-day operations of the business along with a written concurrence by the essential employee
- a written explanation and estimate of how the essential employee's activation to military service has or will result in the small business experiencing substantial economic injury
- a description of the steps the business is taking to alleviate the substantial economic injury
- a certification from the small business owner that the essential employee will be offered the same job or similar job upon the employee's return from active duty

Q. What is an essential employee?

An essential employee is an individual (whether or not an owner of the small business) whose managerial or technical expertise is critical to the successful day-to-day operations of the small business.

Q. What is meant by a "period of military conflict"?

Period of military conflict means (1) a period of war declared by Congress, or (2) a period of national emergency declared by the Congress or the President, or (3) a period of contingency operation.

A contingency operation is designated by the Secretary of Defense as an operation in which our military may become involved in military action, operations, or hostilities (e.g., peace keeping operations).

Q. What does "substantial economic injury" mean?

Substantial economic injury means that your business either has been or will be adversely impacted by the deployment of the military reservist and that the business is (1) unable to meet its financial obligations as they mature, and/or (2) unable to pay its ordinary and necessary operating expenses, and/or (3) the small business is unable to market, produce or provide a service ordinarily marketed, produced or provided.

Q. When will I know if I get the loan?

That depends on when you file a complete SBA loan application. To make a loan, we must be satisfied that the business can repay the loan from its operations and take reasonable safeguards to help ensure the loan is repaid. Since we process applications in the order received, the faster you return the application with all the needed information, the faster we can work on it. We try to make decisions on each application within 7 to 21 days. Be sure the information in your application is complete; missing information is the biggest cause of delay.

Q. How soon can I expect my money?

After we approve the loan, we will tell you what documents are needed to close the loan. Once we receive these documents, we can disburse the funds. Because the MREIDL funds are subsidized by the taxpayer, the SBA provides the money in quarterly installments unless otherwise specified in your loan documents. To obtain a Military Reservist Economic Injury Loan Application please contact the Disaster Area Office that serves your state or territory.

SOURCE: <http://archive.sba.gov/services/disasterassistance/basics/FAQs/index.html>