The Daily Dish

FCR Alert

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Buckle up loyal Eakinomics readers and brace yourself for Federal Credit Rage (FCR). Fresh off failing to saddle the taxpayers with $400 billion in student loan giveaways, your administration is quietly stopping collections on $62 billion of Economic Injury Disaster Loans (EIDLs). Congress created the Covid-19 Economic Injury Disaster Loan program during the pandemic to provide low-interest, 30-year loans to companies. These were expressly loans; i.e., there was no confusion about the obligation to repay.

But the loans were a great deal, with low interest rates and long periods to pay back. Nevertheless, many loans were quickly in arrears. The Small Business Administration (SBA) thus had to figure out next steps. According to *The Washington Post*, "Anticipating a wave of defaults…the SBA had already decided that it would not take the most aggressive actions possible to pursue borrowers who received loans worth $100,000 or less. The agency said it planned to send out stern letters demanding payments and threatening penalties, and it aimed to prohibit these borrowers from obtaining federal aid again. But the SBA opted against referring all unpaid and delinquent loans to the Treasury Department, which can garnish wages and initiate other collection activities, according to reports, letters and other materials prepared by SBA and its top watchdog that were later reviewed by The Washington Post."

This did not pass muster with the SBA inspector general. Per the *Post*, "Hannibal 'Mike' Ware, whose office issued a scathing review in late September, warn[ed] that SBA's repayment policy 'could incentivize other COVID-19 EIDL recipients to stop paying on their loans.'"

Wonderful. At what point will the administration grasp the fact that they have some obligation to require borrowers to honor their contracts and in the process protect the taxpayer? The Post reported that an agency spokesman argued "federal law allows the SBA to refrain from referring unpaid debts to the Treasury Department, since doing so could cost

the government too much in staff, administrative hearings and mailings, while potentially harming mom-and-pop small businesses more than larger firms, which may be incorporated and benefit from other legal protections."

This is nonsense in two ways. First, potential cost of the moral hazard of setting (another) precedent for non-collection of debts is undoubtedly much larger than staff and mailings. Second, there is no reasonable inequity produced from "harm" to mom-and-pop versus larger firms. This isn't *harm*. This is paying one's legal obligations and only the moral abyss that is the Biden Administration doesn't understand the difference.

Enough. EIDLs were a great deal at a key moment. No further largesse is merited.