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Testimony

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House of Representatives

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**SMALL BUSINESS
ADMINISTRATION**

**Additional Steps Should Be
Taken to Address Reforms
to the Disaster Loan
Program and Improve the
Application Process for
Future Disasters**

Statement of William B. Shear, Director
Financial Markets and Community Investment



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Madam Chairwoman and Members of the Committee:

I am pleased to be here today to discuss our work on reforms made to the Small Business Administration's (SBA) Disaster Loan Program and the impact those reforms had following recent disasters. As you know, SBA plays a critical role in assisting the victims of natural and other declared disasters. SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, businesses of all sizes, and nonprofits recover from disasters such as earthquakes, hurricanes, and terrorist attacks. Since the agency's inception in 1953, SBA has approved more than \$46 billion in disaster loans for homeowners, businesses, and nonprofit organizations. After the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), SBA faced an unprecedented demand for disaster loans, while also being confronted with a significant backlog of applications; therefore, hundreds of thousands of loans were not disbursed in a timely way. Many criticized SBA for what was perceived to be a slow and confusing response to the disasters and one that exposed many deficiencies in the agency's Disaster Loan Program and demonstrated the need for reform. For example, as we stated in our February 2007 report, SBA did not engage in or complete comprehensive disaster plans before the Gulf Coast hurricanes, and this limited logistical disaster planning likely contributed to the initial challenges the agency faced in responding to the 2005 hurricanes.¹ As a result, Congress and SBA agreed that the program needed significant improvements. Since then, SBA has taken several steps to reform its Disaster Loan Program which include creating an online loan application, increasing the capacity of its Disaster Credit Management System (DCMS), and developing a Disaster Recovery Plan (DRP).² In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act (Act) to expand steps taken by SBA and require new measures to ensure that SBA is prepared for future catastrophic disasters.³

¹GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, [GAO-07-114](#) (Washington, D.C.: Feb. 14, 2007).

²SBA's use of the term "disaster recovery plan" differs from how it is generally used in referring to an information technology-focused plan designed to restore operability of a system, application, or computer facility following an emergency.

³Pub. L. No. 110-246, subtitle B, 122 Stat. 2168 (2008).

My statement today summarizes our report released at this hearing.⁴ This report focuses on (1) the extent to which SBA addressed the requirements of the Act, and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 DRP. To do this work, we identified and analyzed the requirements of the Act and related statutory deadlines; obtained information about SBA's completed, current, and planned reform efforts; reviewed documents and progress reports to determine if requirements had been addressed and deadlines were met; interviewed officials and obtained information on what, if any, challenges exist that may affect SBA's ability to implement certain requirements; and interviewed officials to obtain information about next steps and resources that the agency identified as needed to address any remaining requirements. We also conducted site visits in Iowa and Texas, and obtained information on SBA's performance in the aftermath of the 2008 Midwest floods and Hurricane Ike. We interviewed SBA and Small Business Development Center (SBDC) officials, state and local officials, and representatives of local Chambers of Commerce, economic development organizations, and affected small business owners about what worked well and suggested improvements to SBA's disaster loan processes. Finally, we reviewed results from a survey of SBA loan applicants on their satisfaction with SBA's Disaster Loan Program in 2008. Our work was performed between October 2008 and July 2009 in accordance with generally accepted government auditing standards.

⁴GAO, *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, [GAO-09-755](#) (Washington, D.C.: July 29, 2009).

**SBA Fully Addressed
Half of the Act's
Provisions, but Has
Not Yet Established
Milestones for
Implementation of
Remaining
Requirements**

As of June 2009, SBA fully addressed requirements for 13 of 26 provisions of the Act; partially addressed 8; and took no action on 5 that are not applicable at this time (see table 1). For the 13 provisions SBA fully addressed, the agency's actions included putting in place a secondary facility in Sacramento, California to process loans during times when the main facility in Fort Worth, Texas is unavailable, making improvements to DCMS to track and follow up with applicants, and expanding its disaster reserve staff from about 300 to more than 2,000 individuals. Furthermore, according to SBA and our review, 5 provisions require no action by SBA at this time because they are discretionary or additional appropriations are needed before SBA can satisfy the Act's requirements.

Table 1. SBA's Status in Addressing Requirements and Deadlines of the 2008 Small Business Disaster Response and Loan Improvements Act

Section	Description of requirement	Status	Deadline
12061	SBA permitted to make economic injury disaster loans to nonprofits.	●	
12062 ^a	SBA must ensure its disaster assistance programs are coordinated to the maximum extent practicable with FEMA programs.	◐	○
12063	Better public awareness of disaster declaration, application periods, and creation of a marketing and outreach plan.	◐	○
12064	SBA must conduct a study looking at the consistency between standard operating procedures and regulations of the Disaster Loan Program.	●	○
12065	SBA increased loan amounts from \$10,000 to \$14,000 without requiring collateral.	●	
12066	SBA authorizes private contractors to process disaster loans and coordinate efforts with IRS to expedite loan processing.	◐	
12067	SBA must develop, implement, or maintain a centralized information system to track and follow up with disaster loan applicants.	●	
12068	SBA is authorized to increase the deferment period of loans, but the deferment may not exceed 4 years.	N/A	
12069	SBA must put in a place a secondary facility for processing disaster loans in case the primary facility is unavailable.	●	
12070	SBA can not require the borrower to pay any non-amortized amount for the first 5 years after repayment begins.	●	
12071	SBA is authorized to make economic injury disaster loans in cases of ice storms and blizzards.	●	
12072	SBA must develop and implement a major disaster response plan and conduct a disaster simulation exercise at least once every 2 years.	●	●
12073	SBA must assign an individual the disaster planning responsibilities and report to Congress.	●	●
12074	SBA should ensure that the number of full-time equivalent ODA employees is not fewer than 800 and in the disaster cadre not fewer than 1,000.	●	
12075	SBA must develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually.	◐	◐ ^b
12076	SBA must develop long-term plans to secure sufficient office space to accommodate an increased workforce in times of disaster.	●	
12077	SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit.	●	
12078	Maximum disaster loan amount increased from \$1.5 to \$2 million.	●	
12079	SBA may guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.	N/A	
12081	If the President declares a major disaster, SBA may declare eligibility for additional disaster assistance.	N/A	
12082	SBA permitted to make economic injury disaster loans to eligible small business concerns located anywhere in the US (including outside the disaster area) when the SBA declares eligibility for additional disaster assistance.	N/A	
12083 ^a	SBA must establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area.	◐	○
12084	SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders.	◐	
12085 ^a	SBA must establish an Expedited Disaster Assistance Business Loan Program.	◐	○
12086	SBA is allowed to institute a program to refinance Gulf Coast disaster loans resulting from Hurricanes Katrina, Rita, or Wilma up to an amount no greater than the original loan.	N/A	
12091	SBA must submit reports to Congress on disaster assistance.	◐	◐

● Addressed (initial or ongoing) or deadline met

◐ Partially addressed or some deadlines met

○ Not addressed or missed deadline

N/A Not applicable because no action is needed to be taken by SBA at this time, due to provisions' discretionary nature.

Source: GAO analysis of the Act and SBA documents.

Note: The Act explicitly establishes appropriation requirements for procurements related to a major disaster for the provision in bold.

^aThe Act requires SBA to issue regulations for these provisions.

^bSBA has not yet issued an updated DRP.

While SBA has taken some steps toward implementing the Act, the agency still needs to take additional steps to completely address 8 provisions. According to SBA officials, the agency has not yet completely addressed some provisions that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs—such as the Immediate and Expedited Disaster Assistance Programs—to satisfy requirements of the Act. These programs, which require participation of private lenders, would be designed to provide businesses with access to short-term loans while they are waiting for long-term assistance. Moreover, as required by the Act, SBA has not issued an update of its comprehensive DRP that reflects recent changes resulting from the Act’s requirements, as well as SBA’s own reform efforts.⁵ Delays in updates to the DRP limit the agency’s ability to adequately prepare for and respond to disasters. Also, SBA has not fully addressed the requirement for providing region-specific marketing and outreach and ensuring the information is made available to SBDCs and other local resources. We consistently heard from regional entities, such as SBDCs and emergency management groups, about the need for more up-front information on SBA’s Disaster Loan Program and their expected roles and responsibilities in disaster response efforts. By taking such actions, SBA could leverage the efforts and capacity of SBDCs, as well as state and local emergency management agencies, and ensure that it and they will be better prepared for future events, especially in disaster-prone areas.

Furthermore, the Act established multiple new reporting requirements and while SBA has addressed some of these, the agency has failed to comply with the Act and issue a first annual report on disaster assistance—which was due in November 2008. Specifically, the Act requires that SBA report annually on the total number of SBA disaster staff, major changes to the Disaster Loan Program (such as changes to technology or staff

⁵Congress acted to signify the importance of an agency-wide plan by including a section of the Act that requires SBA to develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance. According to section 12075, the plan must include a description of the disasters most likely to occur regionally, including (1) an assessment of the disaster; (2) an assessment of the likely demand for SBA assistance; (3) an assessment of SBA’s resource needs related to information technology, telecommunications, human resources, and office space; and (4) guidelines on SBA’s use of resources and how it intends to coordinate with other agencies. SBA refers to its comprehensive disaster response plan (as required by section 12075) as its DRP.

responsibilities), a description of the number and dollar amount of disaster loans made during the year, and SBA's plans for preparing and responding to possible future disasters.⁶ Failure to produce annual reports on schedule can lead to a lack of transparency on the agency's progress in reforming the program. Additionally, 9 provisions set forth in the Act are subject to deadlines, which the agency has had limited success in meeting.⁷ The agency also has not developed a plan with expected time frames for addressing the remaining requirements. SBA's not providing reports to Congress and not having an implementation plan in place for addressing the remaining requirements can lead to a lack of transparency about the agency's Disaster Loan Program, program improvement, and capacity to reform the program, as well as its ability to adequately prepare for and respond to disasters.

SBA's Response Following 2008 Disasters Aligned with Certain Components of its DRP, but SBA's Response to Disaster Victims' Feedback on the Application Process Could Be Improved

SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with major components of its DRP, such as infrastructure, human capital, information technology, and communications. Additionally, individuals to whom we spoke affected by both disasters considered the agency's overall performance somewhat positive, but believed the disaster loan process could be improved.

In May 2008, floods devastated 85 counties in Iowa (one of several states affected) and in September 2008, Hurricane Ike devastated 50 counties in Texas. SBA and SBDC officials, state and local representatives, private-entity officials, and business owners in Iowa and Texas told us that in the days immediately following the disasters, SBA's Office of Disaster Assistance staff reported to the affected areas and began providing needed disaster assistance. These individuals also said that SBA staff provided outreach and public information about its Disaster Loan Program; distributed application information; assigned knowledgeable customer service representatives to various Disaster and Business Recovery

⁶The Act also states the annual report must include information on some requirements under certain provisions, such as (a) the regulations on coordination with FEMA to assure that applications for disaster assistance are submitted as quickly as practicable as required under section 12062; (b) disaster simulation exercises conducted by the agency under section 12072; (c) updates to the comprehensive DRP required under section 12075; and (d) updates to SBA's plans for securing office space to accommodate an expanded workforce required under section 12076.

⁷As of June 2009, SBA had met some deadlines for four provisions, missed one deadline by 27 days, and missed deadlines for four remaining provisions by many months.

Centers; and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help—as outlined in SBA’s DRP. In addition, our review of SBA’s 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents were somewhat satisfied with the assistance SBA provided during other recent disasters.

However, both the individuals we interviewed and survey results indicated areas for improvement and opportunities to increase satisfaction with SBA’s disaster loan process. For example, individuals we interviewed and survey responses pointed to concerns about the amount of paperwork required to complete SBA’s disaster loan application and the timeliness of loan disbursements. Also, some business owners said they had to provide copies of 3 years of federal income tax returns, although they had signed an Internal Revenue Service (IRS) form 8821—Tax Information Authorization—which allows SBA to get tax return information directly from IRS. To address these concerns, the individuals we interviewed suggested several changes to the program, such as eliminating the requirement that business loan applicants provide copies of IRS tax records; providing partial disbursements earlier in the process; using bridge loans to help ensure disaster victims receive timely assistance; and involving SBA, SBDCs, and state and local officials in joint pre-planning and disaster preparedness efforts.

Though SBA officials told us they have been taking steps to improve the application process, these steps and improvement efforts were not documented. In addition, we found that while SBA conducts an annual customer satisfaction survey, the agency does not appear to incorporate this feedback mechanism into its formal efforts to continually improve the application process. Furthermore, SBA does not appear to have a formal process for addressing identified problem areas and using this experience to improve the application process for future applicants. By establishing such a process to address identified problem areas, SBA could better demonstrate its commitment to improving the Disaster Loan Program. As discussed in our report, while SBA has made progress, the agency has missed opportunities to further improve its Disaster Loan Program, and in particular improve the application process for future applicants.

Actions Needed To Ensure That SBA Addresses Remaining Requirements and Improves the Application Process

In our report, we made five recommendations to facilitate SBA's progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program. Specifically, we recommended that the Administrator of SBA:

- (1) develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act and ensure regional entities, such as SBDCs, have this information and other Disaster Loan Program information readily available prior to the likely occurrence of a disaster;
- (2) complete the first annual report to Congress on disaster assistance and adhere to the time frame for subsequent reports;
- (3) expeditiously issue an updated DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own reform efforts;
- (4) develop an implementation plan and report to Congress on the agency's progress in addressing the requirements of the Act, including milestone dates for completing implementation; and
- (5) develop and implement a process to address identified problems in the disaster loan application process for future applicants.

SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, SBA cited ongoing efforts since 2005 to improve its application process, such as the electronic loan application, and said the agency has plans to continue its improvement efforts and make them an ongoing priority. However, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

Madam Chairwoman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Committee may have.

Contacts and Acknowledgments

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