

**HOUSE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDING
AND EMERGENCY MANAGEMENT
HEARING REGARDING
THE ROLE OF THE FEDERAL GOVERNMENT IN SMALL BUSINESS
DISASTER RECOVERY**

SEPTEMBER 12, 2008

Testimony of
Herbert Mitchell
Associate Administrator for
Disaster Assistance

Good morning Chairwoman Norton, Ranking Member Graves, and distinguished members of the Committee. Thank you for inviting me to discuss disaster recovery and, more specifically, the role of the Small Business Administration in assisting small businesses get back up and running following a disaster.

Through our Office of Disaster Assistance (ODA), the SBA is responsible for providing affordable, timely and accessible financial assistance following a disaster to businesses of all sizes, homeowners, and renters. Many disaster survivors have insurance, which covers part or all of the physical property losses due to a natural disaster, but for disaster losses not covered by insurance, an SBA loan is the primary form of federal financial assistance. This financial assistance is available in the form of low-interest loans, and since the SBA's inception in 1953, it has provided 1.8 million loans for more than \$46 billion dollars.

Additionally, certain small businesses and not-for-profit organizations are also eligible for Economic Injury Disaster Loans to assist with ongoing operating expenses until they recover from the disaster.

SBA's Role in Responding to a Disaster:

The Small Business Administration is not a first responder agency, but rather SBA is focused on the long-term economic recovery efforts in coordination with its government partners at the federal, state, and local levels. In addition to its disaster loan program, SBA helps small businesses recover from disasters through its guaranteed lending, technical assistance, and government contracting and business development programs.

Disaster loans are a critical source of economic stimulation in the affected areas following a disaster. As part of an overall effort to assist businesses get back on their feet, SBA's disaster home loans of up to \$200,000 help those employed in the local community return and rebuild their homes. Moreover, businesses of all sizes are eligible for loans of up to \$2 million to assist with any uninsured and otherwise uncompensated

physical damage losses sustained during a disaster to repair or replace damaged physical property.

Additionally, SBA's Office of Disaster Assistance offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations who have suffered economic injury caused by a disaster. If a small business or organization is unable to meet obligations and to pay its ordinary and necessary operating expenses an EIDL loan can help. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

An EIDL can help meet necessary financial obligations that a business or private, non-profit organization would have met, had the disaster not occurred. It provides relief from economic injury caused directly by the disaster and permits a reasonable level of working capital during the period affected by the disaster. The maximum loan amount is \$2 million combined for both physical and economic injury.

Lastly, SBA has a program to assist businesses that are impacted following the deployment of a key employee to active military duty. The SBA's Military Reservist Economic Injury Disaster Loan program provides funds to eligible small businesses to meet its ordinary and necessary operating expenses that it could have met, but is unable to meet, because an essential employee was "called-up" to active duty in their role as a military reservist. These loans are intended only to provide the amount of working capital needed by a small business to pay its necessary obligations as they mature until operations return to normal after the essential employee is released from active military duty.

SBA's Key Improvements to Disaster Assistance since Hurricane Katrina:

Following the 2005 Gulf Coast Hurricanes, SBA experienced significant challenges in responding to a natural disaster of such a large scale. The cumulative result of the Gulf Coast disasters caused damage that was so extensive that the number of resulting disaster loan applications overwhelmed SBA's capacity to process them.

SBA recognized the severe challenges that hindered its efforts to aid recovery in a timely way, and has made dramatic improvements to its process operations. Today by incorporating lessons learned and process improvements, SBA's Disaster Assistance Program and our sister federal agencies have overhauled the processes and response protocols. We learned important lessons from the '05 hurricanes and we are prepared to effectively execute our role to support the post-disaster economic recovery. SBA is better prepared than ever to process loans faster, provide better quality service and be more helpful to our customers, disaster survivors.

SBA's Office of Disaster Assistance has re-engineered the process by which the Agency responds to disasters and disaster survivors. All of these enhancements have been incorporated into the Agency's Disaster Response Plan. The DRP was created to

become a comprehensive “playbook” to ensure a broad scope of coordination, awareness, and support throughout the Agency.

Under SBA’s Disaster Response Plan, during all levels of disaster response and long term economic recovery, SBA leverages existing resource partners (Small Business Development Centers, Women Business Centers and SCORE) primarily to help with local outreach as well as collaborate to distribute disaster recovery training materials and information to small businesses and non-profit organizations in the impacted areas.. Additionally, SBA and it’s resource partners have a long stand reputation for providing management and technical assistance to businesses. Along with SBA, our resource partners are available to those businesses who are recovering from a disaster and we strongly urge them to access these services by contacting their local chapter.

The Agency has improved the application review process. Today, we are able to provide loan applicants an accelerated decision process. To put this into perspective, the goal for processing a Pre-Katrina Business loan was 17 days. The actual time was 70 days for business loans during Hurricane Katrina. Today, the goal for processing a disaster business loan is 12 days but the actual time is currently 9.1 days for SBA’s response to the Midwest Floods. Additionally, on August 4, 2008, SBA introduced an electronic loan application which is currently in use and has a capacity of 5,600 applications per hour.

Furthermore, we have revamped the post-approval process, improving processes and tools for loan closing and fund disbursement by creating case management teams with staff from each key area, such as loan processing and legal. The emphasis is on customer service and accountability, with each approved loan assigned to a team and an individual case manager.

On top of this, we have increased the Disaster Credit Management System’s capacity from 2,000 to 12,000 concurrent users; expanded our workforce to include over 2,000 reservists along with enhanced training and quality assurance to ensure consistent adherence to policies and procedures; expanded infrastructure including 200,000 square feet of surge space and equipment; and better coordination between non-disaster field staff and improved harmonization across disaster center operations.

Admiral Steve Smith (USN, Retired) was recently named Chief of the Executive Office of Disaster Strategic Planning and Operations (EODSPO) in June 2008. The EODSPO’s primary function will be to continue to develop and implement institutional changes to SBA’s disaster assistance program and is responsible for ensuring all SBA departments maintain a high state of readiness to deliver on the agency’s multiple missions in disaster recovery.

Recent Legislative Improvements:

Finally, I would like to describe SBA’s progress in implementing the provisions of the 2008 Farm Bill which bear directly on our Disaster Assistance Program. A number

of these provisions, in fact, were already in operation, and we welcomed the codifications or expansion of these reforms. Specifically, we are talking about the Disaster Response Plan, the Chief of the Executive Office of Disaster Strategic Planning and Operations, regular reports to Congress, and other reforms instituted by SBA and then codified through the Farm Bill.

For those provisions that were new, SBA has been working to quickly and effectively implement these features as a part of our overall Disaster Recovery capabilities. To date, the following program enhancements have already been implemented:

- Non-collateralized loan limits for physical disaster loans have increased to \$14,000 from \$10,000.
- Loan caps for businesses have increased to \$2 million from \$1.5 million.
- Use of Net Earnings Clause in the first 5 years of repayment has been prohibited.
- Non-profit organizations are now eligible for Economic Injury Disaster Loans.

In closing, we appreciate the opportunity to share with the Committee the role SBA plays in small business disaster recovery efforts, and we believe that the reforms we have instituted and the new tools Congress has provided will allow us to more effectively and efficiently respond to the needs of our nation's citizens. I look forward to further describing these efforts and answering your questions. Thank you.