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The SBA Disaster Loan Program: Overview and Possible Issues for Congress

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Summary

Through its Disaster Loan Program, the Small Business Administration (SBA) has been a major source of assistance for the restoration of commerce and households in areas stricken by natural and human-caused disasters since the agency's creation in 1953. SBA offers direct loans to businesses to help repair, rebuild, and recover from economic losses after a disaster, but approximately 80% of the agency's approved direct disaster loans are made to individuals and households (renters and property owners) to help repair and replace homes and personal property.

The SBA Disaster Loan Program includes four categories of loans for disaster-related losses: (1) Home Disaster Loans, (2) Business Disaster Loans, (3) Economic Injury Disaster Loans (EIDL), and (4) Pre-Disaster Mitigation Loans. Home disaster loans are used by homeowners and renters to repair or replace their disaster-damaged primary residences or personal property. SBA regulations limit home loans to $200,000 for the repair or replacement of real estate and $40,000 for the repair or replacement personal property. Business disaster loans help businesses of all sizes and nonprofit organizations repair or replace disaster-damaged property, including inventory and supplies. Both Business Disaster Loans and EIDLs are limited by law to $2 million per applicant. The two programs also provide assistance to small businesses, small agricultural cooperatives (but not enterprises), and certain private, nonprofit organizations that have suffered substantial economic injury resulting from a physical disaster or an agricultural production disaster. Since 1953, SBA has approved roughly 1.9 million disaster loans for a total of more than $47 billion (nominal dollars).

Congressional interest in the Disaster Loan Program has increased in recent years primarily because of concerns about the program's performance in responding to the 2005 and 2008 hurricane disasters. Supporters of the Disaster Loan Program argue that it is an important form of assistance to help victims recover from disasters. Critics argue that the responsibility for disaster recovery should be borne by homeowners through the purchase of private insurance. Supporters reply that by covering individuals and households unable to afford private insurance, the program fills a need not met by traditional market mechanisms.

This report describes the SBA Disaster Loan Program, including the types of loans available to individuals, households, businesses, and nonprofit organizations. It highlights eight issues of potential congressional concern: (1) the pace of implementation of the Small Business Disaster Response and Loan Improvement Act of 2008 (P.L. 110-246), (2) SBA's loan processing procedures, (3) the funding of the Disaster Loan Program, (4) the potential need for loan forgiveness and waivers, (5) the roles and responsibilities of SBA in a potential National Recovery Framework, (6) the use of disaster loans to replace allegedly toxic drywall, (7) the transfer of the Disaster Loan Program to FEMA, and (8) the perceived increase in federal spending for disasters. This report also discusses some of the reforms contained in Title VII of H.R. 3854, the Small Business Financing and Investment Act of 2009, which passed the House on October 29, 2009, and was referred to the Senate Committee on Small Business and Entrepreneurship. H.R. 3854 contains provisions intended to address some of the programmatic and policy issues associated with the SBA Disaster Loan Program.

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Introduction

For more than 50 years, the Small Business Administration (SBA) Disaster Loan Program has been a source of economic assistance to areas stricken by disasters. Authorized by the Small Business Act,[1] it is the only SBA program that provides *direct loans* to help businesses, nonprofit organizations, homeowners, and renters repair or replace property damaged or destroyed in a federally declared or certified disaster. The Disaster Loan Program is also designed to help small agricultural cooperatives recover from economic injury resulting from a disaster. SBA disaster loans include (1) Home Physical Disaster Loans, (2) Business Physical Disaster Loans, (3) Economic Injury Disaster Loans (EIDL), and (4) Pre-Disaster Mitigation Loans.[2]

Since SBA's inception in 1953, the agency has approved roughly 1.9 million applications for disaster loans of all types, amounting to approximately $47 billion.[3] Most direct disaster loans (80%) are awarded to individuals and households rather than small businesses.[4] The program generally offers low-interest disaster loans at a fixed rate.[5]

This report provides an overview of the Disaster Loan Program, discusses how disaster declarations trigger the SBA loan process, explains the different types of loans potentially available to disaster victims, and discusses terms and restrictions related to each type of loan. The report also explains the SBA disaster loan application process and provides national data on SBA loans from 2000 to 2009, including data related to the Gulf Coast hurricanes since 2005.[6]

The report examines some of the more significant issues of potential interest in the 111th Congress, such as SBA compliance with the Small Business Disaster Response and Loan Improvement Act of 2008 (P.L. 110-246), the use of SBA disaster loans to replace allegedly toxic drywall, and the SBA process for conducting credit checks.

[1] P.L. 85-536, Section 7(b) 72 Stat. 387, as amended.

[2] Declarations and certifications that can trigger SBA's Disaster Loan Program assistance are discussed later in this report under the heading "Types of Declarations." SBA also offers Military Reservist Economic Injury Disaster Loans. These loans are available when economic injury is incurred as a direct result of a business owner or an essential employee being called to active duty. Generally, these loans are not associated with disasters. The policies and regulations of the Disaster Loan Program are contained in Title 13, part 123, of the *Code of Federal Regulations* (C.F.R.) and may be accessed at http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?sid=a6359c887c16327c658d80667dd78f04&c=ecfr&tpl=/ecfrbrowse/Title13/13tab_02.tpl.

[3] Testimony of Manuel Gonzalez, director, Houston District Office, Small Business Administration, in U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Disaster Recovery in Galveston,* hearing, 111th Cong., 1st sess., September 25, 2009.

[4] Small Business Administration, *Disaster Recovery: Introduction*, Washington, DC, p. 2, Notes, http://training.sba.gov:8000/response. See also **Table 2** of this CRS report for annual data on Home Disaster Loans and Business Disaster Loans.

[5] The rationale for disbursing disaster loans through SBA rather than FEMA is explained in **Appendix A** of this report.

[6] These are Hurricanes Katrina (August 29, 2005), Rita (September 24, 2005), Wilma (October 24, 2005), Gustav (September 1, 2008), and Ike (September 13, 2008).

Types of SBA Disaster Loans

The following section provides a description of the types of disaster loans available to homeowners, renters, and businesses. Each description explains loan limits, eligible recipients and loan activities, and loan maturities.

SBA Disaster Loans Available to Homeowners and Renters

As mentioned elsewhere in this report, 80% of SBA disaster assistance is made available to individuals and households rather than businesses. SBA disaster assistance is provided in the form of loans, not grants, and therefore must be repaid to the federal government. Homeowners, renters, and personal property owners located in a declared disaster area (and in contiguous counties) may apply to SBA for loans to help recover losses from the disaster. SBA's Home Disaster Loan Program falls into two categories: personal property loans and real property loans.[7] These loans cover only uninsured or underinsured property and primary residences. Loan maturities may be up to 30 years.

Personal Property Loans

A personal property loan provides a creditworthy homeowner or renter with up to $40,000 to repair or replace personal property items such as furniture, clothing, or automobiles damaged or lost in a disaster.[8] These loans cover only uninsured or underinsured property and primary residences and cannot be used to replace extraordinarily expensive or irreplaceable items such as antiques, recreational vehicles, or furs.

Real Property Loans

A creditworthy homeowner may apply for a "real property loan" of up to $200,000 to repair or restore the homeowner's primary residence to its pre-disaster condition.[9] The loans may not be used to upgrade homes or build additions, unless upgrades or changes are required by city or county building codes. A homeowner may borrow the lesser of a mitigation measure or up to 20% of the approved loan amount for repairs to protect the damaged property from similar incidents in the future.[10]

SBA Disaster Loans Available to Businesses

As with Home Disaster Loans, SBA disaster assistance for businesses is in the form of loans rather than grants and must be repaid. Three types of SBA disaster loans are available to businesses: Business Physical Disaster Loans, EIDLs, and Pre-Disaster Mitigation Loans. The following sections briefly describe each of type of loan. The maximum loan maturity for a Business Disaster Loan is 30 years.

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[7] Federal regulations on the SBA Disaster Loan Program can be located at 13 C.F.R. § 123.

[8] 13 C.F.R. § 123.105(a)(1).

[9] 13 C.F.R. § 123.105(a)(2).

[10] 13 C.F.R. § 123.107.

Business Physical Disaster Loans

Any business, regardless of size, located in a declared disaster area may be eligible for a Physical Disaster Loan through the SBA Disaster Loan Program. Physical Disaster Loans are made available to repair or replace damaged physical property. The maximum loan amount is $2 million.[11] Physical Disaster Loans may be used for repairs and replacements to real property, machinery, equipment, fixtures, inventory, and leasehold improvements that are not covered by insurance.[12] Physical Disaster Loans for businesses may utilize up to 20% of the verified loss amount for mitigation measures in an effort to prevent loss should a similar disaster occur in the future. Interest rates for Business Physical Disaster Loans for businesses must be no higher than 8% and no higher than 4% if the homeowner does not have credit elsewhere.[13]

Economic Injury Disaster Loans

EIDLs are available only to small businesses as defined by SBA size regulations, which vary from industry to industry.[14] For example, to be considered small, most manufacturing firms must have no more than 500 employees and most retail trade firms must have no more than $7 million in average annual sales. Small agricultural cooperatives and most private and nonprofit organizations that have suffered economic losses as the result of a declared disaster are also eligible for EIDLs. The maximum loan amount for an EIDL is $2 million. The loan can have a maturity of up to 30 years and has an interest rate of 4% or less.[15]

Pre-Disaster Mitigation Loan Program

To support FEMA's Pre-Disaster Mitigation Program, SBA may make low-interest, fixed-rate loans to businesses to finance measures to protect commercial property, leasehold improvements, or contents from disaster-related damages that may occur in the future.[16] A business that participates in the program may borrow up to $50,000 each fiscal year.[17] The business applying

[11] P.L. 110-246, the Food, Conservation, and Energy Act of 2008 (subtitle: Small Business Disaster Response and Loan Improvements Act of 2008) Note: At the time of this report, the *Code of Federal Regulations* had not been updated to reflect this amount.

[12] Leasehold is a fixed asset and gives the right to hold or use property for a fixed period of time at a given price, without transfer of ownership, on the basis of a lease contract.

[13] 13 C.F.R. § 123.203(a).

[14] See 13 C.F.R. § 123.300 for eligibility requirements. Size standards vary according to a variety of factors, including industry type, average firm size, and start-up costs and entry barriers. Size standards can be located in 13 C.F.R. 121. For further analysis, see CRS Report R40860, *Defining Small Business: A Historical Analysis of Contemporary Issues*, by Robert Jay Dilger.

[15] 13 C.F.R. § 123.302.

[16] The pre-Disaster Mitigation Loan Program was created in 1999 as a five-year pilot program and has been extended through a series of extensions. The most recent was P.L. 112-17, which extended the program to July 31, 2011. It is unclear if the program will be extended further.

[17] For further analysis of FEMA's Pre-Disaster Mitigation Program, see CRS Report RL34537, *FEMA's Pre-Disaster Mitigation Program: Overview and Issues*, by Francis X. McCarthy and Natalie Keegan.

for the loan must be located in a Special Flood Hazard Area (SFHA).[18] The interest rate for a pre-disaster mitigation loan is fixed at 4% per annum or less.[19]

A Pre-Disaster Mitigation Loan may not be made if:

- the business is primarily engaged in political or lobbying activities;[20]
- the business derives more than one-third of its revenues from legal gambling activities;[21] or
- any of the principal business owners are currently incarcerated, on parole, or on probation.[22]

Declared Disasters as Defined by SBA

Only victims located in a declared disaster area (and contiguous counties) are eligible to apply for disaster loans. Disaster declarations are "official notices recognizing that specific geographic areas have been damaged by floods and other acts of nature, riots, civil disorders, or industrial accidents such as oil spills."[23] Usually, the incident must be sudden and cause severe physical damage or substantial economic injury. For example, the contamination of food supplies or natural events that cause the sudden displacement or closure of fishing waters may result in a disaster declaration and eligibility for SBA assistance. In contrast, some slow-onset events such as shoreline erosion or gradual land settling are not viewed by SBA as declarable disasters. Droughts and below-average water levels in lakes, reservoirs, and other bodies of water may, however, warrant declarations.[24]

Types of Declarations

Five categories of declarations put the SBA Disaster Loan Program into effect. These include two types of presidential major disaster declarations as authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act),[25] and three types of SBA declarations.[26] The category of declaration dictates the type of disaster loans available but has no bearing on loan terms or loan caps. The following describes each type of declaration:

[18] 13 C.F.R. Sec. 123.403(a). A community interested in the SFHA program can contact its FEMA regional office or visit the FEMA website at http://www.fema.gov.

[19] 13 C.F.R. § 123.406.

[20] 13 C.F.R. § 123.404(n).

[21] 13 C.F.R. § 123.404(k).

[22] 13 C.F.R. § 123.404(a).

[23] 13 C.F.R. § 123.2.

[24] Ibid. Areas affected by droughts and below-average water levels are only eligible for Economic Injury Disaster Loans, which are discussed later in this report.

[25] P.L. 93-288, 42 U.S.C. 5721 et seq.

[26] Disaster declarations are published in the *Federal Register* and can also be found on the SBA website at http://www.sba.gov/services/disasterassistance/basics/recentdisaster/SERV_RECENT_WV_11750.html.

1. The President declares a major disaster, or an emergency, and authorizes both Individual Assistance (IA) and Public Assistance (PA).[27] When the President issues such a declaration, SBA Disaster Loan loans become available to affected homeowners, renters, businesses of all sizes, and nonprofit organizations.
2. The President makes a major disaster declaration that only provides the state with PA. In such a case, a private nonprofit entity that provides noncritical services may be eligible for an SBA loan. The entity must first have applied for an SBA loan and must have been deemed ineligible or must have received the maximum amount of assistance from SBA before seeking grant assistance from FEMA.[28] Home and physical property loans are not provided if the declaration only provides PA.
3. The SBA administrator issues an SBA physical disaster declaration.[29] In other cases, the governor of a state may submit a written request to the SBA administrator to issue a physical disaster declaration.[30] When the SBA Administrator makes such a declaration, disaster loans become available for homeowners, renters, businesses of all sizes, and nonprofit organizations in primary and contiguous counties.
4. The SBA administrator may make an EIDL declaration when SBA receives a certification from a state governor that at least five small businesses have suffered substantial economic injury as a result of a disaster. This declaration is offered only when other viable forms of financial assistance are unavailable. EIDL declarations provide Economic Injury Disaster Loans to small businesses, small agricultural cooperatives, and most private nonprofit organizations.
5. The SBA administrator may issue a declaration for EIDL loans based on the determination of a natural disaster by the Secretary of Agriculture.[31] These loans are available to small businesses, small agricultural cooperatives, and most private nonprofit organizations in primary and contiguous counties. Additionally, the SBA administrator may issue a declaration based on the determination of the Secretary of Commerce that a fishery resource disaster or commercial fishery failure has occurred.[32]

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[27] Administered by FEMA, Individual Assistance (IA) includes various forms of help for families and individuals following a disaster event. The assistance authorized by the Stafford Act can include housing assistance, disaster unemployment assistance, crisis counseling, and other programs intended to address people's needs. Public Assistance (PA) provides various categories of assistance to state and local governments and nonprofit organizations. Principally, PA covers the repair or replacement of infrastructure (roads, bridges, public buildings, etc.), but it also includes debris removal and emergency protective measures, which cover additional costs incurred by local public safety groups through their actions in responding to the disaster. FEMA's PA program provides assistance only to public and nonprofit entities. For further analysis of Stafford Act declarations, see CRS Report RL34146, *FEMA's Disaster Declaration Process: A Primer*, by Francis X. McCarthy.

[28] 13 C.F.R. § 123.3(2). See also 42 U.S.C. § 5172(a)(3).

[29] Some SBA declarations are based on criteria such as the occurrence of at least a minimum amount of uninsured physical damage to buildings, machinery, inventory, homes, and other property. Generally, this minimum is at least 25 homes or businesses (or some combination of the two) that have sustained uninsured losses of 40% or more in any county or other smaller political subdivision of a state or U.S. possession. See 13 C.F.R. § 123.3(3)(ii).

[30] 13 C.F.R. § 123.3(3)(iii).

[31] 13 C.F.R. § 123.3(4).

[32] 15 U.S.C. § 632(k)(1).

Frequency of Declarations

As shown in **Table 1** (also see **Figure 1**), 1,612 disaster declarations, an average of 322 a year, were issued from 2005 through 2009. The greatest number of declarations, an average of 200 a year, originated from the Secretary of Agriculture. In contrast, the fewest declarations, averaging less than one per year, came from the Secretary of Commerce.

Table 1. Disaster and Emergency Declarations

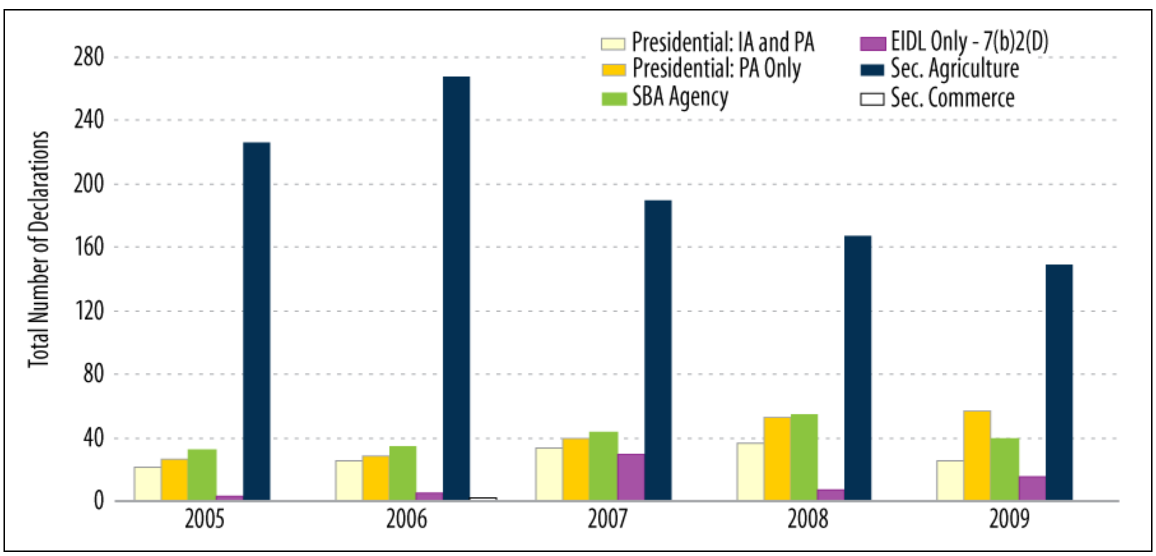
FY2005 to FY2009, by type of declaration

Type of Declaration	2005	2006	2007	2008	2009	Annual Average
Presidential	21	25	33	37	25	28.2
Presidential (PA Only)	26	28	40	53	57	40.8
SBA Agency	32	35	44	55	40	41.2
EIDL Only—7(b)2(D)	3	5	29	7	15	11.8
Secretary of Agriculture	226	268	190	167	149	200.0
Secretary of Commerce	0	2	0	0	0	0.4
Total	308	363	336	319	286	322.4

Source: Data provided by SBA and available from the CRS author upon request.

Figure 1. Disaster and Emergency Declarations

FY2005 to FY2009, by type of declaration



Source: Data provided by SBA and available from the CRS author upon request.

SBA Disaster Loan Program and Statistics

As shown in **Table 2**, SBA approved 362,726 applications for Home Disaster Loans from 2000 to 2009.[33] The yearly average number of approved Home Disaster Loans was 36,273. Additionally, from 2000 to 2009, SBA approved 73,519 applications for Business Disaster Loans.[34] A total of 436,245 Home Disaster Loan and Business Disaster Loan applications were approved, for a yearly average of 43,625. Home loan approvals accounted for 83% of this average.

A large number of Home Disaster Loans were approved in 2001 due mainly to the Nisqually Earthquake on February 28, 2001. Other noticeable increases in approved applications occurred in 2005 and especially in 2006, following the Gulf Coast hurricanes.

Table 2. SBA Disaster Loan Approvals

FY2000 to FY2009

Fiscal Year	Home Disaster Loans		Business Disaster Loans		Combined Total
	Number Approved	Percentage of Combined Total	Number Approved	Percentage of Combined Total	
2000	23,070	81.8%	5,148	18.1%	28,218
2001	43,519	89.1%	5,333	10.8%	48,852
2002	10,114	46.3%	11,715	53.7%	21,829
2003	20,235	78.3%	5,621	21.6%	25,856
2004	25,024	87.8%	3,486	12.1%	28,510
2005	52,677	84.9%	9,398	15.0%	62,075
2006	145,164	85.4%	24,819	14.5%	169,983
2007	11,760	83.9%	2,254	16.1%	14,014
2008	12,755	84.2%	2,373	15.7%	15,128
2009	18,408	84.4%	3,372	15.5%	21,780
Total	362,726	83.0%	73,519	16.9%	436,245
Average	36,273		7,352		43,625

Source: Data provided by SBA and available from the CRS author upon request.

Notes: Numbers have been rounded. Numbers shown in this table represent the numbers of approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and accepted numbers may be smaller than the numbers shown here.

During the same period, SBA approved, on average, $1.6 billion in Home Disaster Loans each year.[35] In contrast, the average annual amount for business loans was $813 million. As shown in

[33] The total includes physical and real property loans.

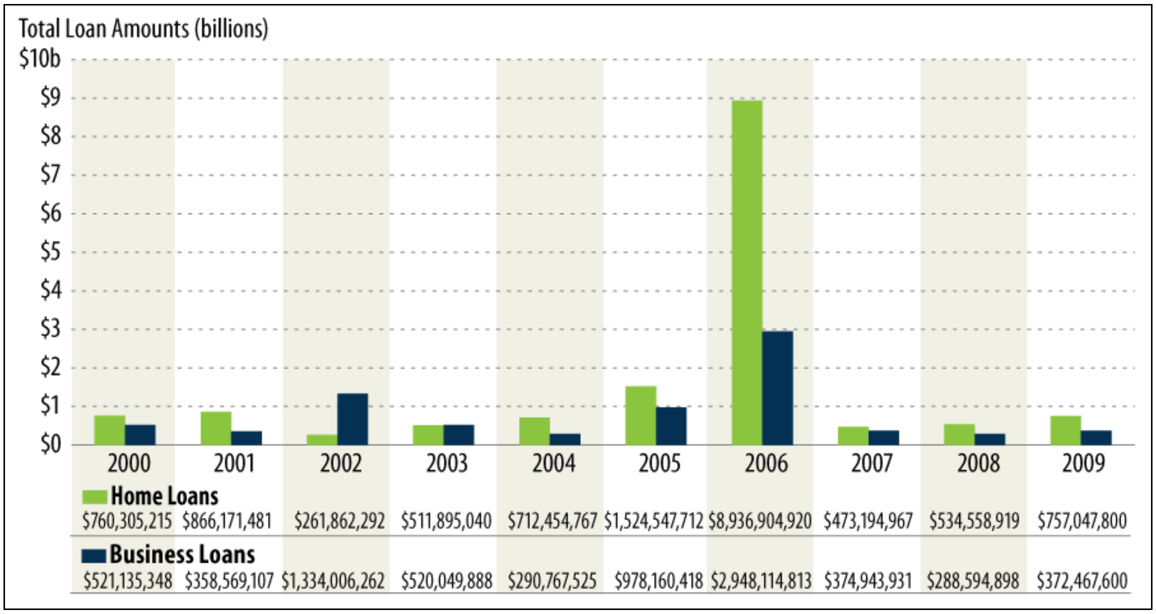
[34] These include loans for physical damage and EIDLs.

[35] Nominal dollars.

Figure 2, the amount loaned by SBA's Disaster Loan Program increased in 2005 and especially in 2006, reflecting the effects of the 2005 Gulf Coast hurricanes.

Figure 2. Nationwide SBA Disaster Loans for Homes and Businesses: FY2000 to FY2009

2009 constant dollars



Source: Data provided by SBA and available from the CRS author upon request.

Notes: Amounts shown in this figure reflect approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and accepted amounts may be smaller than the amounts shown here.

As shown in **Figure 2**, SBA usually approves larger dollar amounts for Home Disaster Loans than for Business Disaster Loans. However, because of the September 11, 2001, terrorist attacks, dollar amounts for business loans in 2002 and 2003 exceeded those for home loans.

Possible Issues for the 112th Congress

SBA was widely criticized for its performance following the 2005 Gulf Coast hurricanes.[36] SBA accordingly revised its standard operating procedures in an effort to improve its response time in processing disaster loan applications. Further, Congress enacted legislation during the 110th Congress (P.L. 110-246, the Small Business Disaster Response and Loan Improvements Act of 2008) mandating 26 program requirements to reform the loan program. The extent of SBA's

[36] See, for example, U.S. Government Accountability Office (GAO), *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, July 29, 2009, summary, http://www.gao.gov/new.items/d09755.pdf; Small Business Administration: Office of Inspector General, *Disaster Loan Program*, Washington, DC, February 2006, http://www.sba.gov/idc/groups/public/documents/sba/oig_feb2006monthlyupdate.pdf; and Small Business Administration, *SBA Disaster Assistance: Post-Gulf Coast Hurricane Reforms*, Press Release: 08-92, Washington, DC, September 12, 2008, http://www.sba.gov/idc/groups/public/documents/sba_homepage/news_release_08_92.pdf.

compliance with the act's program requirements and success in reducing the amount of time taken to process disaster loans continue to be concerns in the 111th Congress. Other possible issues for congressional consideration include the integration of the SBA Disaster Loan Program into FEMA's upcoming national recovery document, the costs associated with the removal of toxic drywall following the 2005 hurricanes, SBA's credit check process, and the debate concerning funding for the Disaster Loan Program. Each of these matters are discussed below.

Compliance with the Small Business Disaster Response and Loan Improvements Act of 2008

In response to criticism of SBA's disaster loan processing, and in an effort to improve SBA's Disaster Loan Program, Congress passed the Small Business Disaster Response and Loan Improvements Act of 2008.[37] Among the act's 26 new program requirements for SBA are provisions designed to improve coordination efforts with FEMA, ensure that SBA has an adequate number of full-time-equivalent employees, update or develop a disaster response plan, and keep Congress better informed concerning the agency's progress on meeting the act's requirements through annual reports. The act is divided into three parts as follows:

- **Part I, Disaster Planning and Response:** Part 1 of the act includes a number of measures intended to improve SBA's coordination with other agencies when responding to disasters. For instance, Section 12062(a)(5) requires the SBA administrator to ensure that the agency's disaster assistance programs are coordinated, to the maximum extent practicable, with FEMA's disaster assistance programs. Section 12063(5) requires that the administrator make every effort to communicate, through radio, television, print, and internet-based outlets, all relevant information needed by disaster loan applicants. Section 12069(a) requires that if SBA's primary facility for disaster loan processing becomes unavailable, another disaster loan processing facility must be made available within two days.
- **Part II, Disaster Lending:** Part 2 of the act provides additional loan amounts in certain circumstances, reforms some of SBA's loan processes, and grants SBA authority to defer payments of loans made to homeowners and businesses affected by the 2005 Gulf Coast hurricanes. For example, Section 12081 grants the SBA administrator authority to provide additional disaster assistance for events that cause significant loss of life or damage, Section 12085 establishes an Expedited Disaster Assistance Loan Program, and Section 12086 allows the SBA administrator to carry out a program to refinance Gulf Coast disaster loans.
- **Part III, Miscellaneous:** Part 3 of the act pertains to reporting requirements for SBA disaster assistance programs. Section 12091 requires, after a major disaster, the SBA administrator to submit to the Senate Committee on Small Business and Entrepreneurship, the Senate Committee on Appropriations, the House Committee on Small Business, and the House Committee on Appropriations a report on the operation of the Disaster Loan Program not later than the fifth business day of each month during the applicable period for a major disaster. The reports must include the daily average lending volume (in number of loans and

[37] Subtitle B of P.L. 110-246, § 12051.

dollars), the percentage by which each category has increased or decreased since the previous report, the amount of funding available for loans, and an estimate of how long the available funding for salaries and expenses will last, based on SBA's spending rate.

A GAO report released in July 2009 found that SBA met 13 of the 26 requirements of the act, partially addressed eight, and did not take action on five.

Among the critical issues the 2008 act aims to address is the need to inform affected businesses and persons about types of assistance available from SBA and how to access such assistance, and the need for SBA to process high volumes of applications effectively and efficiently while coordinating assistance with other agencies.

One of the requirements GAO found to be only partially addressed was that SBA develop a region-specific marketing and outreach program to make information readily available to regional entities. GAO also reported that SBA had only partially met the act's requirement to fully develop a disaster recovery plan. The plan must include

- an assessment of the various types of disasters likely to occur in each SBA region;
- an assessment of the likely demand for SBA assistance;
- an assessment of SBA's resource needs related to information technology, telecommunications, human resources, and office space; and
- guidelines on how SBA intends to coordinate with other agencies.

In response to the report, SBA officials acknowledged that the agency had not yet completely addressed some of the reforms because implementing new programs and changing existing programs would require it to make extensive changes that would take time.[38] The SBA response, paraphrased by GAO, was as follows:

> 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 said that the agency has 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 [Disaster Recovery Program] 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, the officials cited the electronic loan application as an example of its efforts to improve the application process and said the agency has plans to continue its improvement efforts and make such improvements an ongoing priority.[39]

[38] U.S. Government Accountability Office, *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, July 29, 2009, http://www.house.gov/smbiz/hearings/hearing-7-29-09-SBA-oversight/GAO-Report.pdf. According to SBA, the five provisions require no action by SBA at this time because they are discretionary, or require additional appropriations to satisfy the act's requirements.

[39] Ibid., p. 32.

On September 25, 2009, Manuel Gonzalez, Director of the SBA Houston District Office,[40] testified before the Senate Committee on Small Business and Entrepreneurship that the agency's 2008 response to Hurricane Ike demonstrated programmatic improvements. For example, loan processing times had decreased and better interagency cooperation had been achieved. Gonzalez conceded, however, that there was still room for improvement. According to Gonzalez, SBA learned a number of lessons from the Gulf Coast hurricanes that have led to improved disaster assistance. These reforms included

- implementing new programs such as bridge loans or private disaster loans following catastrophic disasters;[41]
- working to improve coordination efforts with FEMA and the Internal Revenue Service (IRS);
- extending eligibility of the SBA Economic Injury Disaster Loan program to nonprofit groups; and
- significantly shortening the time taken to process loans.

Despite these reported improvements, including implementation of the remaining requirements set forth in the Small Business Disaster Response and Loan Improvements Act of 2008 (P.L. 110-246), the GAO report suggests that SBA is behind schedule in executing reforms. Among the oversight questions that might arise from the GAO findings are what circumstances have impeded the reform requirements of the act and what additional efforts are needed to overcome the impediments.

Improved Time Frame for Loan Processing

At the September 25, 2009, hearing, Director Gonzalez stated that revised procedures that were established before Hurricane Ike reduced the amount of time needed to process an average loan. Senator Mary Landrieu—Chairman of the Senate Committee on Small Business and Entrepreneurship and the Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Disaster Recovery—agreed with Gonzalez, noting that local officials in southwest Louisiana reported that SBA was better prepared and more responsive following Hurricanes Gustav and Ike. For example, SBA took five days to process a home loan following Ike, compared to the 90 days it had taken after Hurricanes Katrina and Rita. The processing time for business loans also improved, averaging just over a week, compared to the 70-day average following Hurricanes Katrina and Rita.[42]

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[40] Testimony of Manuel Gonzalez, director, Houston District Office, Small Business Administration, in U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *Disaster Recovery in Galveston,* hearing, 111th Cong., 1st sess., September 25, 2009.

[41] Bridge loans are part of the SBA's America's Recovery Capital (ARC) Loan Program. They provide up to $35,000 in short-term relief for viable small businesses facing immediate financial hardship to help them endure uncertain economic times and return to profitability. Created under the American Recovery and Reinvestment Act of 2009 (P.L. 111-5), the temporary ARC program offers interest-free loans that carry a 100% guaranty from SBA to the lender and require no fees to be paid to SBA. Loan proceeds are provided over a six-month period, and repayment of the ARC loan principal is to be deferred for 12 months after the last disbursement of the proceeds. Repayment can extend up to five years. Each small business is limited to one ARC loan.

[42] Opening Statement of Senator Mary Landrieu, in U.S. Congress, Senate Committee on Small Business and Entrepreneurship, *A Year Later: Lessons Learned, Progress Made, and Challenges that Remain from Hurricane Ike,* hearing, 111th Cong., 1st sess., September 25, 2009.

Although processing times have decreased, Members may continue to be concerned about the timeliness of the disaster loan decisions. If so, Congress could conduct oversight hearings on methods for reducing processing time while guarding against the unintended consequence of an increased potential for loan fraud and abuse.

Disaster Recovery Framework

On July 23, 2009, the House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, Public Buildings and Emergency Management, held a hearing to examine efforts to reduce bureaucratic obstacles to efficient and timely disaster recovery. One witness suggested that a possible method for improving disaster recovery efforts might be the creation of a "Disaster Recovery Framework" to accompany the National Response Framework (NRF).[43] The Department of Homeland Security and FEMA developed the NRF to guide the nation's response to emergencies and major disasters.

In October 2009, DHS issued an invitation to stakeholders to meet and discuss the possibility of creating a companion document for the NRF, which would focus on recovery. If the recovery framework mirrored the NRF, it would likely designate roles and responsibilities for all entities involved in recovery, including individuals and households, all levels of government, and the private and nonprofit sectors. The new document would most likely also designate certain federal agencies as lead or supporting agencies for certain phases and types of recovery projects.

Given the large role of SBA's Disaster Loan Program in disaster recovery and the program's potential prominence in a national recovery framework, Congress might choose to raise a number of oversight questions about how well SBA's responsibilities are defined and executed. Areas that might be examined and questions asked might include the following:

- What agencies would be involved in the framework, and what would their roles and responsibilities be?
- What role would SBA play in a recovery framework, and what role would it not play if a recovery framework were implemented?
- Would SBA be positively or negatively affected should a recovery framework document be adopted?
- Would a recovery framework assist SBA in granting loans, or constrain the agency by creating unnecessary bureaucracy?
- What mechanisms are in place to ensure interagency cooperation?
- How would a recovery framework fit, or coexist, with the NRF?
- What is the standard for recovery? Is it the community's pre-disaster condition, or would some other standard of "recovered" be used?
- Who would invoke the recovery framework?

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[43] Testimony of Francis X. McCarthy, Analyst in Emergency Management Policy, Congressional Research Service, in U.S. Congress, House Committee on Transportation and Infrastructure, Subcommittee on Economic Development, in Public Buildings and Emergency Management, *Post Katrina: What It Takes to Cut the Bureaucracy and Assure a More Rapid Response After A Catastrophe,* hearing, 111th Cong., 1st sess., July 23, 2009.

- Would the leadership used in the NRF change once a recovery framework was invoked?
- During the stakeholders' conference, FEMA officials suggested that a recovery framework might be issued in June 2010. Is this timeline feasible, or could it lead to a hastily developed document?

Consumer Product Safety

Drywall imported from China was used to repair and replace some of the structures damaged in the 2005 and 2008 Gulf Coast hurricanes. Chinese drywall is generally less expensive, making its use arguably desirable as a cost-saving measure over more expensive, domestically produced drywall. Some of the imported drywall, however, was alleged to be contaminated with sulfuric acid. According to Representative Mario Diaz-Balart:

> Recent reports are that about 100,000 homes could be affected. This imported drywall from China contains sulfuric gas, which actually has corroded copper electrical wiring. It's corroded air conditioning units and copper pipes, including to the point where there have been fire hazards. It's also a health issue. It has created sinus problems, created bloody noses, and headaches. It has created bronchitis and pneumonia in children, and now we hear that it's also harmful to pregnant women. As a matter of fact, Mr. Chairman, on April 17, the *Wall Street Journal* stated that the University of Southern California's School of Medicine, a professor there, stated "that sulfur compound gasses, even at low levels, have been found to cause respiratory problems such as asthma.[44]

To eliminate the problem, observers have called for the drywall to be removed and replaced. To some, the toxic drywall has constituted a second disaster. Concern over the product prompted Senators Bill Nelson, Mary Landrieu, Mark Warner, and Jim Webb to request that economic assistance from FEMA be given to homeowners affected by toxic drywall.[45]

Many of the owners of structures that have been replaced or repaired using the drywall received SBA disaster loans; however, SBA views the toxic drywall as a consumer product problem.[46] Hence, the agency does not plan to extend the amount of current loans or provide additional or new loans to replace the drywall. Even if the loans were to be extended, it is unclear how many households would be approved for an extension because numerous homeowners (particularly in Louisiana) have defaulted on their SBA disaster loans and are therefore unlikely to be approved for second loans. It is also unclear who would fund the removal and replacement of the drywall in foreclosed homes. Unless the drywall is removed, resale of the home will be difficult.

H.R. 3854, the Small Business Financing and Investment Act of 2009, passed the House on October 29, 2009, and was referred to the Senate Committee on Small Business and Entrepreneurship. The bill would authorize the SBA Administrator to make disaster loans available to homeowners "for the repair and replacement" of toxic drywall manufactured in China.

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[44] Representative Mario Diaz-Balart, "Study of Effect of Drywall Presence on Foreclosures," remarks in the House, *Congressional Record*, daily edition, May 7, 2009, p. H5363.

[45] Bill Nelson, Mary Landrieu, Mark Warner, et al., "Letter to Craig Fugate, Administrator, Federal Emergency Management Agency," October 1, 2009, http://billnelson.senate.gov/news/details.cfm?id=318788&.

[46] In an email exchange on November 5, 2009, between the author and the SBA legislative liaison.

Another policy option that might help owners of affected properties is loan forgiveness, or a loan waiver. As a general rule, SBA does not offer loan forgiveness unless Congress intervenes. The only known exception was granted after Hurricane Betsy, when President Lyndon B. Johnson signed the Southeast Hurricane Disaster Relief Act of 1965.[47] Section 3 of the act authorized the SBA administrator to grant disaster loan forgiveness or issue waivers for property lost or damaged in Florida, Louisiana, and Mississippi as a result of Hurricane Betsy. The act stated that SBA,

> to the extent such loss or damage is not compensated for by insurance or otherwise, (1) shall at the borrower's option on that part of any loan in excess of $500, (A) cancel up to $1,800 of the loan, or (B) waive interest due on the loan in a total amount of not more than $1,800 over a period not to exceed three years; and (2) may lend to a privately owned school, college, or university without regard to whether the required financial assistance is otherwise available from private sources, and may waive interest payments and defer principal payments on such a loan for the first three years of the term of the loan.[48]

Credit Checks for SBA Disaster Loans

On March 28, 2008, the SBA Office of Inspector General (OIG) raised an issue of potential congressional concern when it released a study that was critical of the agency's Office of Disaster Administration (ODA). The report indicated that ODA (1) did not perform annual credit reviews, as required by SBA's standard operating procedures, before making distributions of disaster loan proceeds; (2) did not obtain updated financial information; and (3) failed to cancel loans in instances where the borrower had no repayment ability. As a result, the Office of Inspector General stated that the ODA inappropriately extended credit reviews, first from 12 to 16 months, and later to 24 months. According to the Office of Inspector General, the extensions arguably eliminated credit reviews for 10,100 disaster loans totaling over $1 billion in disbursements without assurance that borrowers had the ability to repay the loans.[49] The OIG further concluded that the ODA circumvented a critical management control by disbursing additional funds on these loans without first determining whether adverse changes had occurred in the borrowers' financial condition that could have compromised their ability to repay the additional loan proceeds. The OIG reported that both extensions were made outside the normal process for amending standard operating procedures, which require clearance by senior agency executives who are external to the ODA.[50]

The ODA responded to the study, stating that the OIG report failed to recognize the devastating effects of the Gulf Coast hurricanes on the financial condition of borrowers and the need for SBA to adjust its lending policies accordingly. The ODA argued that because the hurricanes negatively affected borrowers' credit, SBA needed to grant the borrowers additional opportunities to explain poor credit history and credit bureau reports. The ODA further claimed that disaster-related poor credit may have been beyond the borrowers' control (because of the disaster) and that continuing

[47] H.R. 11539 was signed into law November 8, 1965. Hurricane Betsy made landfall on August 27, 1965.

[48] P.L. 89-339, 79 Stat. 1301.

[49] Debra S. Ritt, Assistant Inspector General for Auditing, *Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements*, U.S. Small Business Administration, Office of Inspector General, 08-10, Washington, DC, March 28, 2008, p. 8, http://www.sba.gov/idc/groups/public/documents/sba/oig_dl_8-10.pdf.

[50] Ibid., p. 3.

to enforce the standard credit review policies would have created additional hardships for borrowers.[51]

Although the OIG conceded that the damage caused by the 2005[52] hurricanes was extensive, it concluded that ODA lacked the authority to circumvent the regulatory requirement that loan disbursements be made only to individuals who have the ability to repay their loans. The OIG further argued that Congress intends for the loans to be repaid and that the Disaster Loan Program is not a grant program, indicating that the OIG suspected that some of the loans would not be repaid.[53]

Possible Reforms to the Disaster Loan Program

Critics of SBA's Disaster Loan Program argue that it should be terminated and the responsibility for disaster assistance transferred to businesses and individuals through private insurance. Other critics argue that the federal share of disaster and emergency costs is disproportionately high when compared to state, local, and individual spending on disaster relief. They add that reforms are needed to contain the costs of federal disaster assistance.[54] They point to an OMB report[55] that federal spending on disasters is predicted to rise from $3.6 billion for FY2010 to $225.5 billion in FY2019 as evidence of the need to contain costs.[56]

Bills to terminate the Disaster Loan Program have been introduced a number of times in the past. For example, H.R. 3728, the Disaster Relief Partnership Act, in the 105th Congress, would have terminated the SBA Disaster Loan Program and amended the Stafford Act to establish a national insurance program. If it had been enacted, individuals would have become responsible for insuring their property against disasters without any federal assistance.

The following sections provide (1) SBA data on the funding of disaster loans for the Gulf Coast, and (2) a national comparison of SBA loans and insurance losses for disasters from the years 2000 to 2009. The data show the amount of money loaned through the SBA Disaster Loan Program. Comparing disaster loan amounts to catastrophic insurance losses could help frame a debate about shifting some or all of the responsibility for funding recovery from the federal government to individuals by privatizing disaster loss through the use of insurance.

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[51] Ibid., p. 6.

[52] The response did not cover the 2008 hurricane season.

[53] Ibid., p. 4.

[54] For example, see James F. Miskel, *Disaster Response and Homeland Security: What Works, What Doesn't* (Westport, CT: Westport Press, 2006), pp. 126-127.

[55] Office of Management and Budget, *A New Era of Responsibility: Renewing America's Promise*, Washington, DC, 2009, p. 121, http://www.gpoaccess.gov/usbudget/fy10/pdf/fy10-newera.pdf.

[56] Figures were based on the statistical probability of other large-scale disasters in the future. The OMB report did not discuss the methodology used to derive these figures. (The Senate explored alternative funding options for disaster assistance in the 1980s. See Task Force Report on the Environmental Protection Agency, the Small Business Administration, and the Federal Emergency Management Agency, *President's Private Sector Survey on Cost Control,* Washington, DC, April 15, 1983, pp. 39-45.)

National SBA Data: 2000 to 2009

Nationally, from 2000 to 2009, SBA approved 362,726 applications for Home Disaster Loans, representing a yearly average of 36,273 approved applications. During the same period, the average annual amount approved for Home Disaster Loans was $1.6 billion.[57] With regard to Business Disaster Loans, SBA approved 73,519 applications, for a total of $7.75 billion, during the period. The average number of approved business loan applications each year was 7,352, and the average annual amount approved was $797 million. The devastation caused by the 2005 hurricanes pushed the average number of applications and loans higher. As previously noted, the loan activity due to the 2005 hurricanes produced outlying figures that skewed the data results (see **Table 2**, **Figure B-1**, and **Figure B-2**). If the data exclude 2005 and 2006, the national average of SBA approved Home Disaster Loan applications drops to 164,885. The average annual amount falls to $599 million. When these years are excluded, the number of approved business loan applications drops to 39,902, producing an average annual loan amount of $536 million.

Private Insurance Disaster Losses: 2000 to 2009

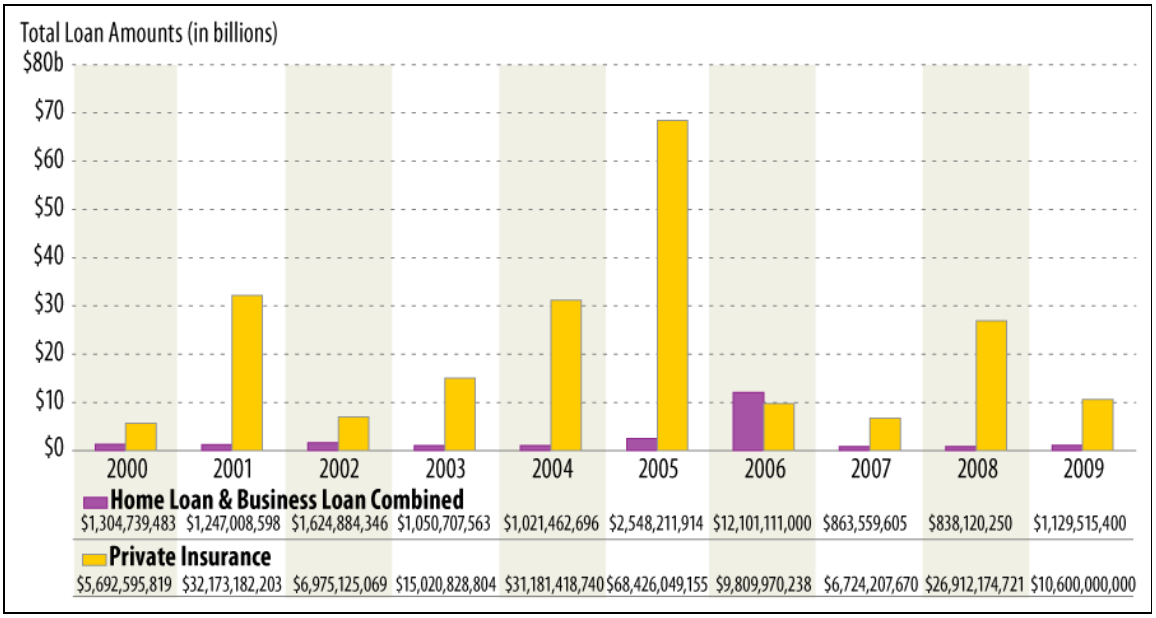
SBA disaster loan amounts are generally less than the catastrophic loss amounts paid out by the insurance industry. Private insurance companies paid out a total of $214 billion for disaster-related losses from 2000 to 2009, with a yearly average of $21 billion. If the year 2005 is removed, the total cost to private insurance companies decreases to $145 billion, with a yearly average of $16 billion.[58] In 2006, however, SBA Home Disaster Loans and Business Disaster Loans (because of Hurricane Katrina) exceeded the private insurance industry's expenditures by roughly $2 billion. (See **Figure 3** for comparisons.)

[57] Nominal dollars.

[58] Some of the figures in this section have been rounded.

Figure 3. National Comparison of SBA Loans to Private Insurance Disaster Losses: FY2000 to FY2009

2009 constant dollars



Source: Data provided by SBA and available from the CRS author upon request. Insurance data are derived from Property Claims Service/ISO; Insurance Information Institute.

Notes: Amounts shown in this figure represent the number of approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and amounts may be less than the amounts shown here. Insurance data for 2009 were available only as a rounded number. Amounts shown in this figure present SBA loans in aggregate form. Disaggregated SBA amounts can be found in **Appendix A**.

SBA Assistance Provided After the Gulf Coast Hurricanes of 2005 and 2008

According to SBA, since the summer of 2005, the largest distributions of disaster loans (in terms of number of applications and dollar amounts) have been for recovery efforts after the Gulf Coast hurricanes. As of July 2009, SBA had approved more than 150,000 Home Disaster Loans, 22,000 Business Disaster Loans, and 3,400 EIDLs to applicants in the Gulf Coast region (see **Table 3**). The total amounts for these loans include $8.7 billion in Home Disaster Loans, $2.8 billion in business loans, and $211 million in EIDL s (see **Table 4** and **Figure B-4**, **Figure B-5**, and **Figure B-6**).

Table 3. SBA Disaster Loans by Type of Approved Application

Number of approved applications for the Gulf Coast as of July 2009

Program	Alabama	Florida	Louisiana	Mississippi	Texas	Total
Home Disaster Loans	2,497	13,988	86,816	31,243	15,862	150,406
Business Disaster Loans	360	2,578	12,904	4,386	2,485	22,713
Economic Injury Disaster Loans	82	812	1,798	335	406	3,433
Total	**2,939**	**17,378**	**101,518**	**35,964**	**18,753**	**176,552**

Source: Data provided by SBA and available from the CRS author upon request. For graphic representations, see **Figure B-1**, **Figure B-2**, and **Figure B-3**.

Notes: SBA provided disaster loans to Alabama and Florida for Hurricanes Katrina, Rita, and Wilma. Alabama and Florida did not receive loans for Hurricanes Gustav and Ike. SBA provided disaster loans to Mississippi for Hurricanes Katrina, Rita, Wilma, and Gustav. Mississippi did not receive loans for Hurricane Ike. SBA provided disaster loans to Texas for Hurricanes Katrina, Rita, Wilma, and Ike. Texas did not receive loans for Hurricane Gustav. Louisiana received assistance for all five hurricanes.

Table 4. SBA Disaster Loans by Gulf Coast State

Cumulative loan amounts for the Gulf Coast as of July 2009; dollars in thousands

Program	Alabama	Florida	Louisiana	Mississippi	Texas	Total
Home Disaster Loans	96,244	450,170	5,445,383	2,069,160	682,976	8,743,933
Business Disaster Loans	47,052	412,085	1,522,443	545,402	297,805	2,824,787
Economic Injury Disaster Loans	7,221	48,917	111,329	19,267	24,186	210,919
Total	**150,517**	**911,172**	**7,079,155**	**2,633,829**	**1,004,967**	**11,779,639**

Source: Data provided by SBA and available from the CRS author upon request. For a graphic representation, see **Figure B-4**, **Figure B-5**, and **Figure B-6**.

Notes: See **Table 3** notes.

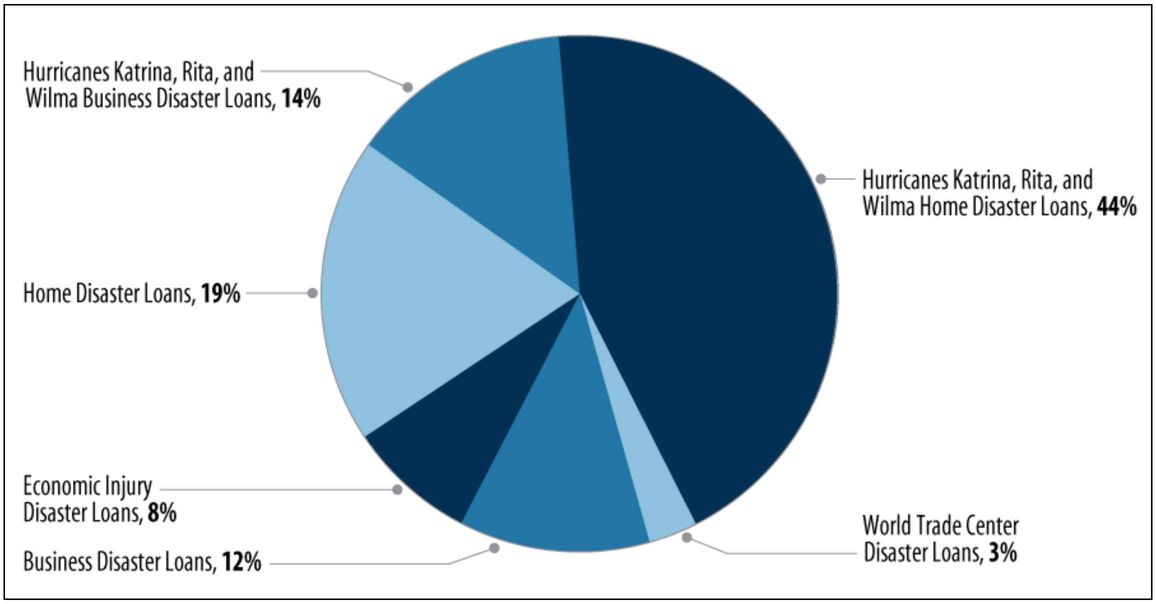
Prior to FY2005, SBA's Disaster Loan Program had an outstanding loan balance of $4 billion. The balance increased to $9 billion by FY2007. In FY2008, the balance decreased to $8.6 billion. According to SBA, two-thirds of the $8.6 billion in outstanding loans pertained to Gulf Coast states, including approximately $3 billion for Business Disaster Loans or Home Disaster Loans in Louisiana, more than $2 billion for Florida and Mississippi, and roughly $7 million for Texas. Most of the loans resulted from the hurricanes that occurred in 2005.[59]

[59] U.S. Small Business Administration, *Agency Financial Report: FY2008*, November 17, 2008, pp. 16-17, http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_abtsba_2008_afr_001-030.pdf.

Figure 4 displays the unpaid principal balances for SBA disaster loans as of September 30, 2008. More than half (58%) of the unpaid loans were associated with Hurricanes Katrina, Rita, and Wilma. Of these, 44% were for Home Disaster Loans and 14% for Business Disaster Loans. According to SBA, defaulted loans have increased the purchase rates by 60% in FY2007 and 80% in FY2008.[60]

Figure 4. Disaster Loan Unpaid Principal Balance by Category

As of September 30, 2008



Source: U.S. Small Business Administration, *Financial Report: FY2008*, November 17, 2008.

Notes: More recent data have not been reported by SBA.

Privatizing Disaster Loans

As previously mentioned, several policy scholars have argued that federal disaster assistance should be privatized. Their primary argument is that government programs are overly generous to disaster victims. Hence, federal disaster assistance functions as a disincentive because individuals and households expect to rely on it after a disaster instead of investing in mitigation, preparedness, and other resiliency practices. One way to shift the responsibility for recovery from the federal government to citizens would be to privatize federal disaster assistance programs, such as the Disaster Loan Program. Proponents maintain that some of the benefits associated with privatization might include

- reducing federal costs for disaster assistance;
- rewarding behaviors that protect against future disasters through insurance deductibles; and

[60] Ibid., p. 16. The dollar volume of loan guaranties purchased by SBA divided by the dollar amount of the guarantied loan portfolio outstanding each month.

- preventing development in hazard prone areas because insuring properties in these areas might be cost prohibitive.

Other observers, however, could note some potential negative aspects and questions about privatizing the Disaster Loan Program. Among them are the following:

- Some individuals might not be able to afford insurance, so they might risk going without it. The National Flood Insurance Program (NFIP) was put into place to make flood insurance more affordable. The utility and success of the NFIP has been subject to debate. Would another program similar to the NFIP need to be put into place? What resources would be available to individuals and households who could not afford to purchase insurance? Would the federal government refuse to help them?
- What would happen if only affluent households could afford to purchase hazard insurance? How would one determine that an individual or household could have purchased insurance, but chose not to?
- Would individuals be required to purchase disaster insurance? If so, how would this requirement be enforced? Would all Americans be required to purchase disaster coverage, or just those in hazardous areas? Moreover, who would be responsible for determining what hazards are specific to what areas?
- What if the private insurance industry decided not to cover a certain area or type of hazard? Would this be considered a market failure? Would there be a need for federal insurance to fill the void?
- Would the private insurance industry be able to cover the costs associated with a catastrophic disaster? Would a disaster the size and scope of Hurricane Katrina bankrupt the industry?
- Would the private insurance industry continue to fund recovery projects that took as long as a decade to complete?
- Could the nation recover from an incident as large as Hurricane Katrina without the use of federal disaster assistance?

Concluding Observations

Supporters of the SBA Disaster Loan Program might argue that the criticisms aimed at SBA's handling of its disaster loan processing in 2005 and 2006 have been addressed. They contend that loan processing times have been reduced, interagency coordination has improved, and new mechanisms such as bridge loans have improved the program. On the other hand, some critics might be troubled by SBA's perceived slow progress in implementing some of the requirements set forth in the Small Business Disaster Response and Loan Improvements Act of 2008 (P.L. 110-246). While SBA's response to Hurricane Ike has been generally regarded as competent, some might argue that if the requirements in the act had been implemented, such as compliance with reporting, the agency's response could have been more successful. In addition, comparing SBA's performance after Hurricane Ike with its performance after Hurricane Katrina might not be a good indicator of improved disaster response because of the more devastating economic damage inflicted by Hurricane Katrina.

Appendix A. Why Does SBA Instead of FEMA Issue Disaster Loans?

In 1978, President Jimmy Carter signed Executive Order 12127. The order merged many of the disaster-related responsibilities of separate federal agencies into the Federal Emergency Management Agency (FEMA). During FEMA's formation, it was determined that SBA would continue to provide disaster loans through the Disaster Loan Program rather than transfer that function to FEMA. At the 1978 hearing before a Subcommittee of the Committee on Government Operations, Chairman Jack Brooks questioned the rationale for keeping the loan program outside of FEMA.[61] According to James T. McIntyre, Director, Office of Management and Budget (OMB), the rationale was as follows:

> [O]ne of the fundamental principles underlying this proposal is that whenever possible emergency responsibilities should be an extension of the regular missions of federal agencies. I believe the Congress also subscribed to this principle in considering disaster legislation in the past. The Disaster Relief Act of 1974 provides for the direction and coordination, in disaster situations, of agencies which have programs which can be applied to meeting disaster needs. It does not provide that the coordinating agency should exercise direct operational control.... [I]f the programs ... were incorporated in the new agency we would be required to create duplicate sets of skills and resources.... [S]ince the Small Business Administration administers loan programs other than those just for disaster victims, both the SBA and the new agency [FEMA] would have to maintain separate staffs of loan officers and portfolio managers if the disaster loan function were transferred to the new Agency.... [O]ne of our basic purposes for reorganization ... would be thwarted if we were to have to maintain a duplicate staff function in two or more agencies.

McIntyre added, "we believe we have achieved a balance in this new agency [FEMA] between operational activities and planning and coordination functions." He further stated that "we can provide better service to the disaster victims if oversight of disaster response and recovery operations is vested in an agency which can adopt a much broader prospective than would be possible if this agency [FEMA] had operational responsibilities as well."

Additionally, a clause in the Stafford Act that prohibits recipients of disaster aid from receiving similar types of aid from other federal sources is often cited as a rationale for keeping the entities distinct.[62] Section 312 of the act states that

> The President, in consultation with the head of each Federal agency administering any program providing financial assistance to persons, business concerns, or other entities suffering losses as a result of a major disaster or emergency, shall assure that no such person, business concern, or other entity will receive such assistance with respect to any part of such loss as to which he has received financial assistance under any other program or from insurance or any other source.[63]

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[61] U.S. Congress, House Subcommittee on Legislation and National Security, Committee on Government Operations, *Reorganization Plan No. 3 of 1978 (Federal Emergency Management Agency)*, hearing, 95th Cong., 2nd sess., June 26 and 29, 1978, p. 13.

[62] P.L. 93-288, 42 U.S.C. § 5121 et seq. For further analysis of the Stafford Act, see CRS Report RL33053, *Federal Stafford Act Disaster Assistance: Presidential Declarations, Eligible Activities, and Funding*, by Francis X. McCarthy.

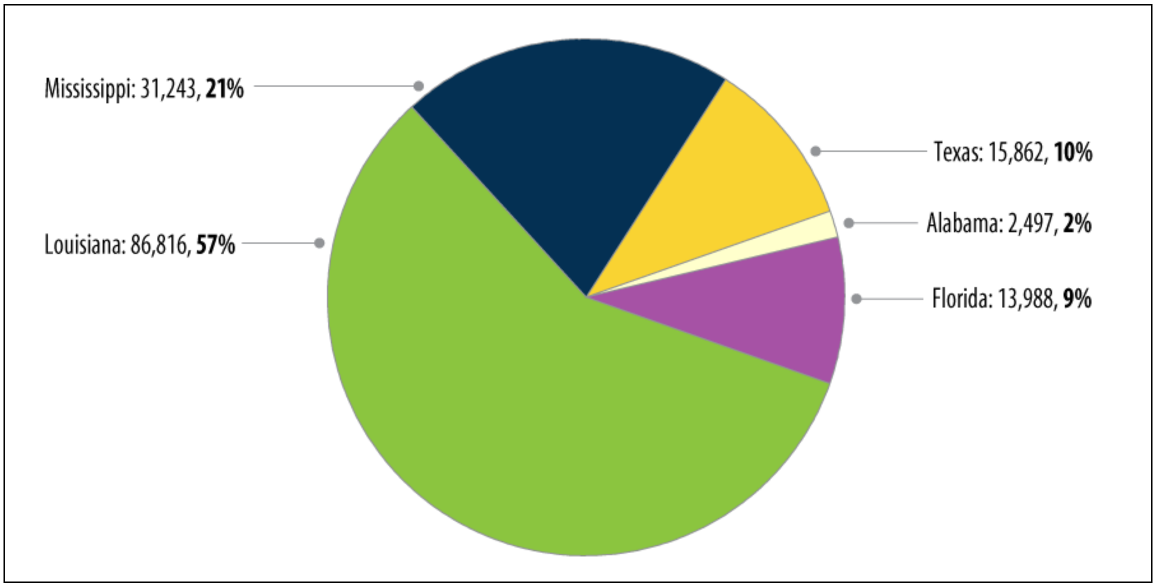
[63] P.L. 93-288, 15 U.S.C. § 5155(a).

Appendix B. SBA Disaster Loan Approvals for Applicants in Gulf Coast States

The following figures are provided to help frame discussions concerning SBA Loan Program activity in the Gulf Coast in response to the 2005 and 2008 hurricane seasons.

Figure B-1. Number of Approved Applications for Home Disaster Loans, by Gulf Coast State

As of July 2009

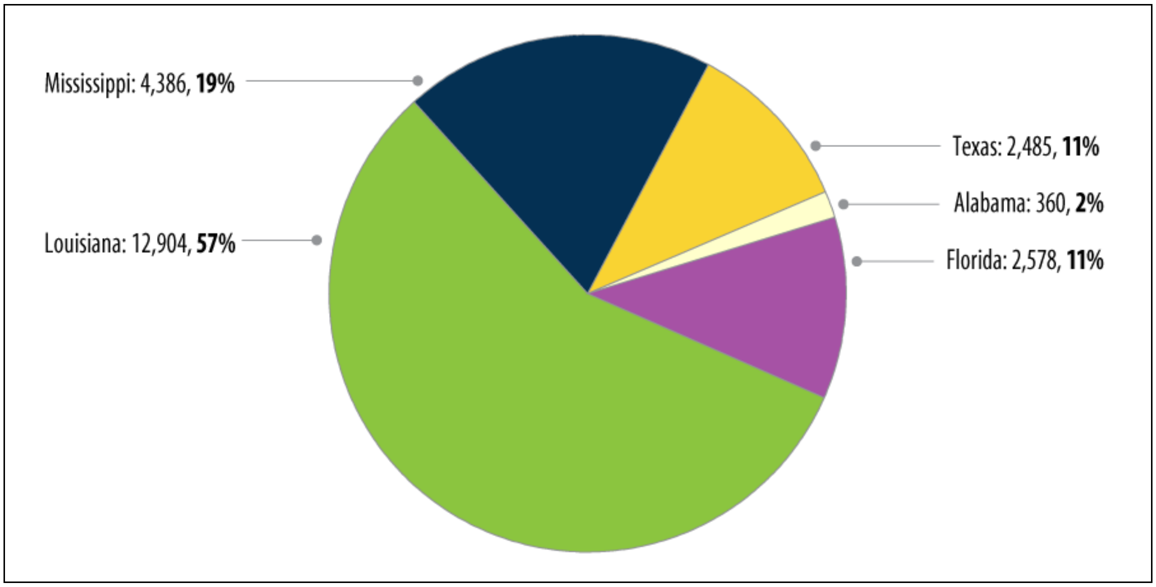


Source: Data provided by SBA and available from the CRS author upon request.

Notes: Numbers shown in this figure refer to approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and accepted numbers of loans may be smaller than the numbers shown here.

Figure B-2. Number of Approved Applications for Business Disaster Loans, by Gulf Coast State

As of July 2009

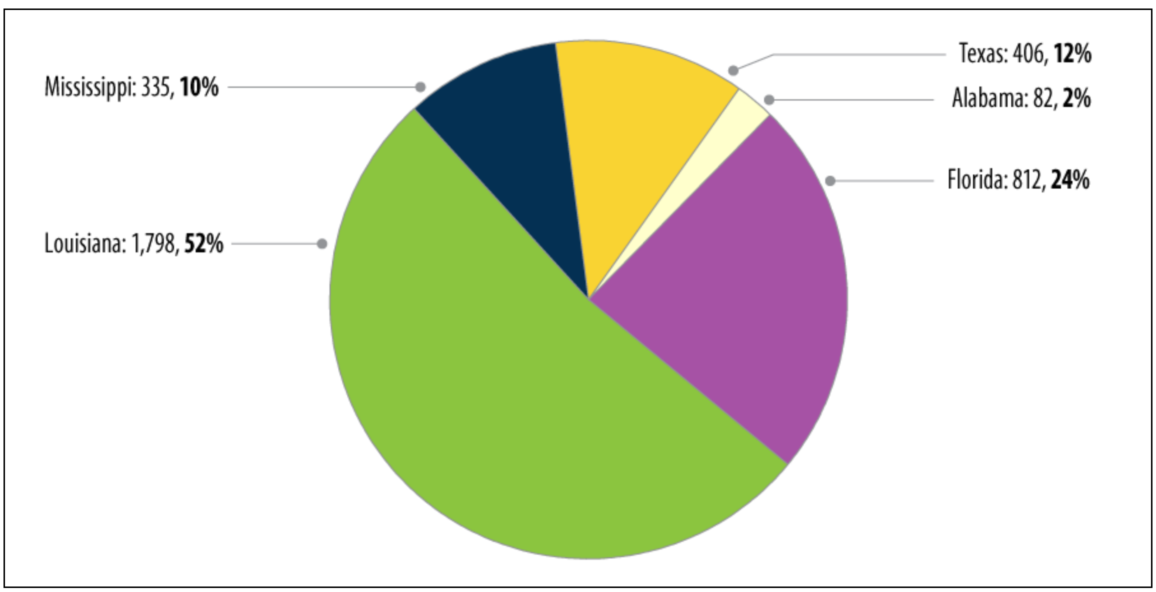


Source: Data provided by SBA and available from the CRS author upon request.

Notes: See notes for **Figure B-1**.

Figure B-3. Number of Approved Applications for Economic Injury Disaster Loans, by Gulf Coast State

As of July 2009

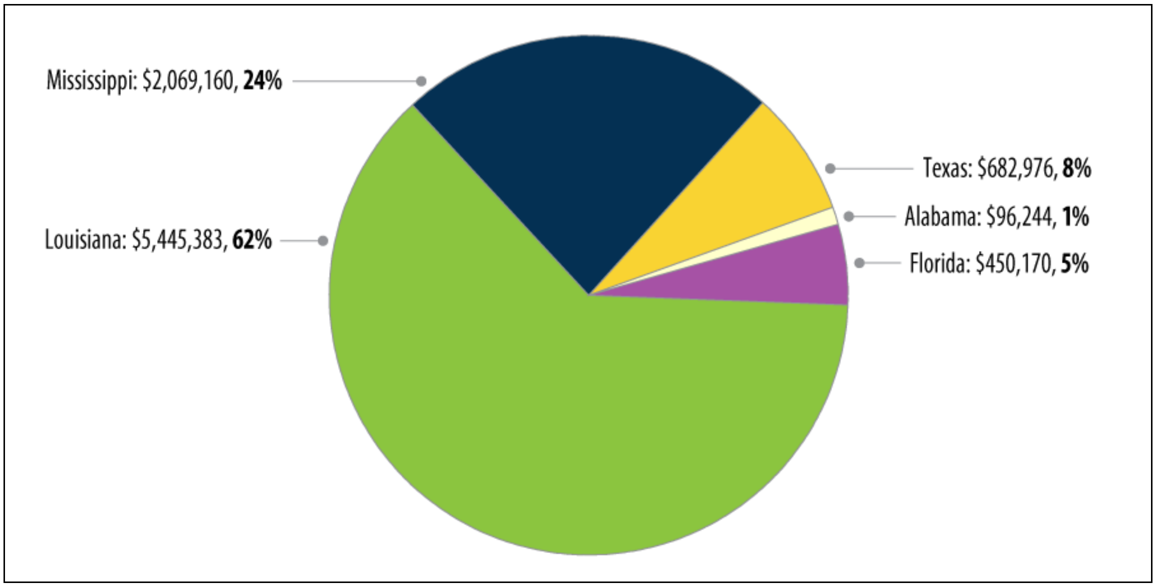


Source: Data provided by SBA and available from the CRS author upon request.

Notes: See notes for **Figure B-1**.

Figure B-4. SBA Home Disaster Loans, by Gulf Coast State

Loan amounts by state for the Gulf Coast as of July 2009; dollars in thousands

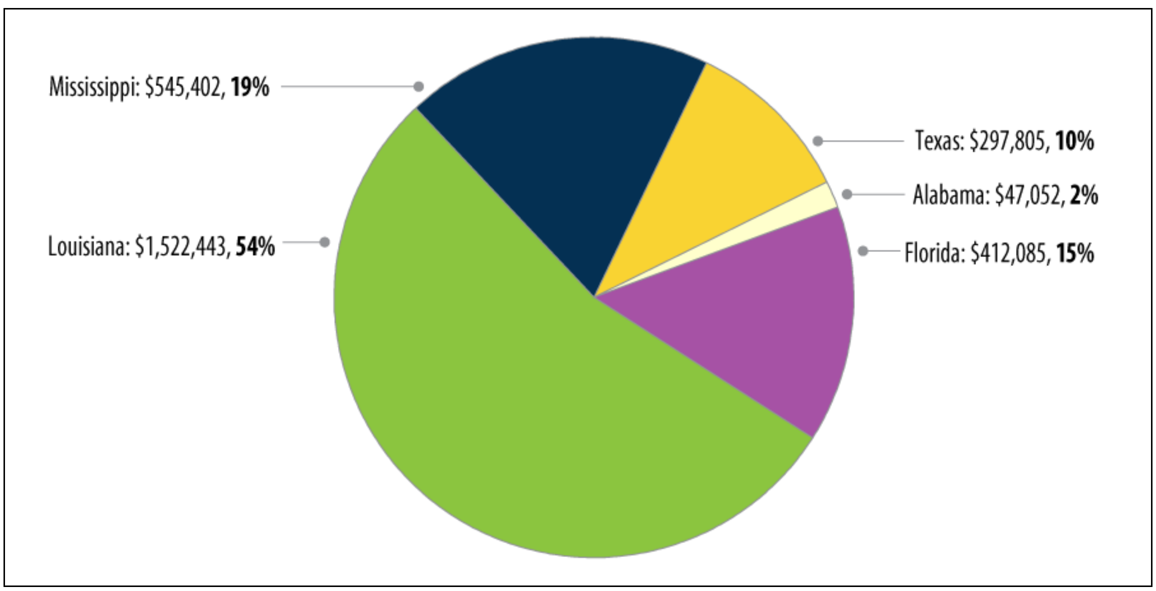


Source: Data provided by SBA and available from the CRS author upon request.

Notes: Amounts shown in this figure refer to approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and accepted amounts may be smaller than the amounts shown here.

Figure B-5. SBA Business Disaster Loans, by Gulf Coast State

Loan amounts for the Gulf Coast as of July 2009; dollars in thousands

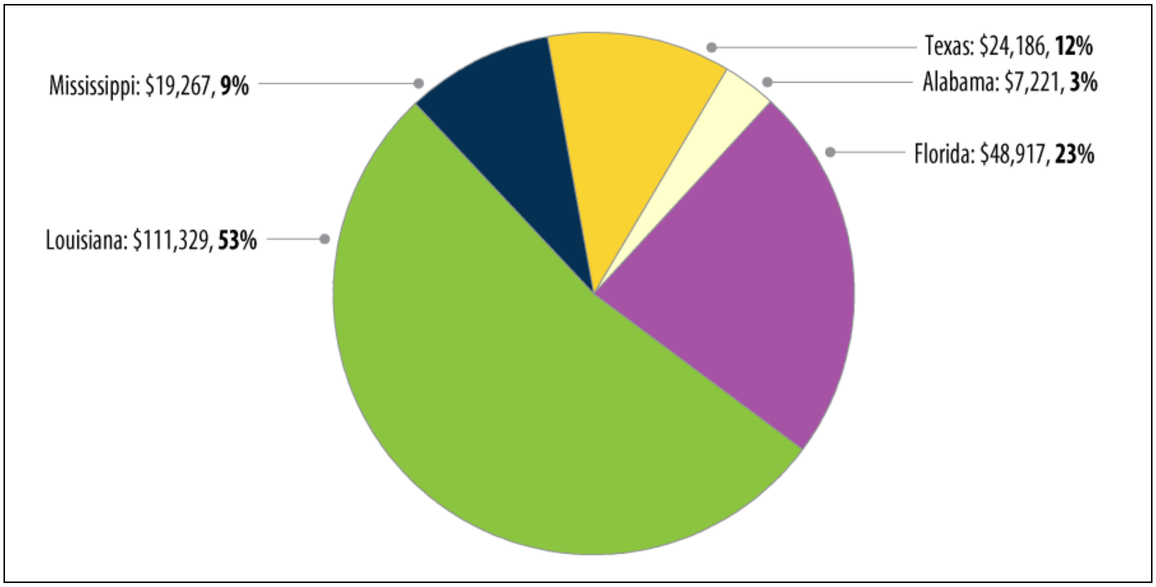


Source: Data provided by SBA and available from the CRS author upon request.

Notes: See notes for **Figure B-4**.

Figure B-6. SBA Economic Injury Disaster Loans, by Gulf Coast State

Loan amounts for the Gulf Coast as of July 2009; dollars in thousands

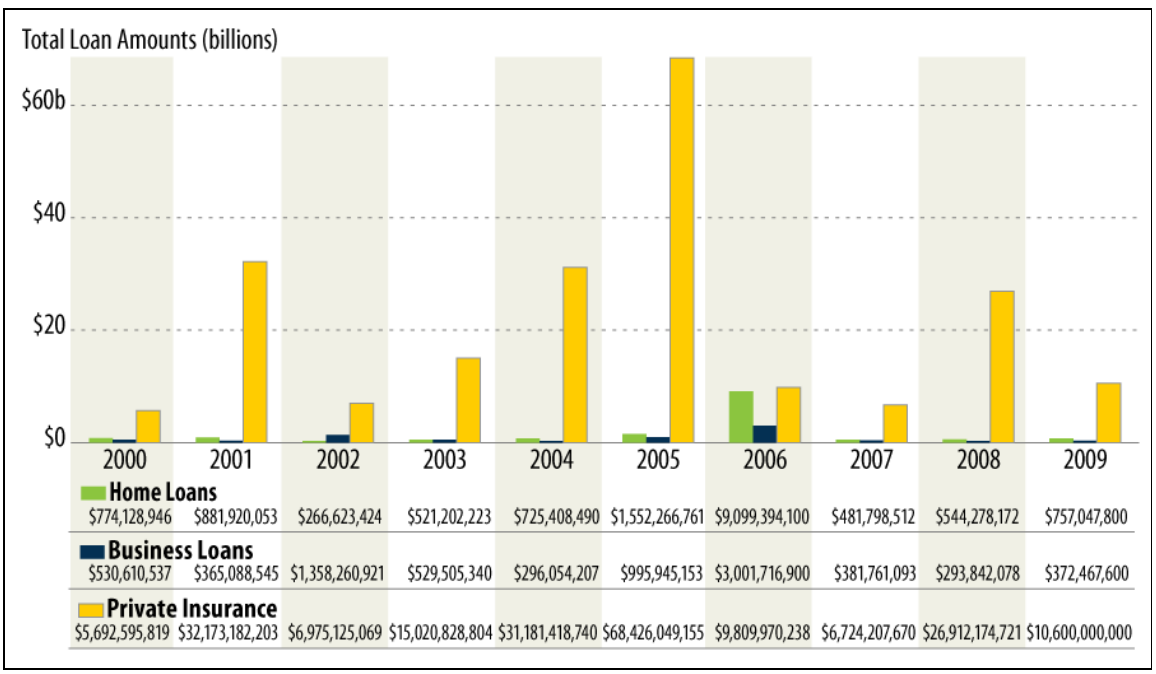


Source: Data provided by SBA and available from the CRS author upon request.

Notes: See notes for **Figure B-4**.

Figure B-7. National Comparison of SBA Disaster Loans to Private Insurance Payouts: 2000 to 2009

As of November 2009; constant dollars



Source: Data provided by SBA and available from the CRS author upon request. Insurance data are derived from Property Claims Service/ISO, Insurance Information Institute.

Notes: SBA amounts shown in this figure refer to approved disaster loans. Not all approved loans are accepted by disaster victims and businesses. Therefore, actual loan acceptance and amounts may be smaller than the amounts shown here.

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