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90 DAYS AFTER SEPTEMBER 11TH: HOW ARE SMALL BUSINESSES BEING HELPED?

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

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90 DAYS AFTER SEPTEMBER 11TH: HOW ARE SMALL BUSINESSES BEING HELPED?

THURSDAY, DECEMBER 6, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 2:00 p.m., in room 2360, Rayburn House Office Building, Hon. Donald A. Manzullo [Chair of the Committee] presiding.

Chairman MANZULLO. I would like to call the hearing for the Small Business Committee together. Good afternoon and a special welcome to those who have come some distance to participate and attend this hearing.

In the aftermath of the terrorist attacks on September 11, this Committee held a hearing on October 10 regarding SBA's efforts to respond to the property damage and economic injury caused by these tragic attacks. We are here again to make sure the needs of small businesses are met.

Many individuals lost friends and relatives, their homes and businesses in New York City as a result of the attacks on the World Trade Center, and many others have suffered enormous economic loss who are now located in the declared disaster area. Here in the Washington area the attack on the Pentagon and the subsequent closure of Reagan National Airport caused economic losses to a number of small businesses.

It has now been 3 months since these attacks. The Committee needs to determine whether Federal programs presently in place are meeting the needs of small businesses. Are the Federal programs providing the assistance to small businesses that Congress intended or are there large numbers of businesses that are without help?

Since September 11, the SBA has issued regulations expanding the scope of the disaster loan program beyond the geographical areas that were the targets of the terrorist attacks. Though the SBA has reported making over $195 million in disaster loans, many small businesses have complained that their applications were denied, that disbursements of the loan funds have not taken place or are delayed or the disaster loan program is not applicable to their particular situation. Plus, there is a credit crises facing small businesses, as confirmed by the Federal Reserve report of last month. What is the SBA doing to make more credit available through its regular loan programs to small businesses?

Assistance is needed now. Delay will only hamper the recovery of the businesses impacted by the events of September 11. And we will not let the terrorists win under—any circumstances.

It is important that the members of this Committee hear how responsive the Federal Government has been to small businesses. We need to know what works, what doesn't work and the things that we can do to try to harmonize this massive effort, the worst local, domestic disaster this Nation has ever suffered.

I think it was the FBI Director that got sworn in 5 days before September 11. Administrator Barreto had a couple of months before then. To work through a crisis like this is just enormous.

Again, we thank you for participating in the hearing, and I yield to the Ranking Member, Ms. Velázquez, for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Three months after the second Tuesday in September, we are still learning the true scope of the effects of terrorism on our Nation. Rescue crews are still sorting through rubble, workers worry about their jobs, and small businesses face challenges in a slowing economy. The New York City Partnership estimates that small businesses will lose $101 million in capital losses and may shift 55,000 jobs in the next year.

No place has been more impacted than Chinatown and the lower East Side in my district, where small businesses are the cornerstone of our community. Firms there are seeing 30 to 70 percent drops in revenue. More than half of all government workers in Chinatown have lost their jobs. Most factories are operating at less than half their capacity. This disaster is larger than anything we have ever seen before. The Northridge earthquake and Hurricane Andrew were our largest before this year. September 11 dwarfs them many times over.

I would like to commend the Small Business Administration for its rapid and effective response. Within days of the attacks, SBA was on the ground in New York with workers to assess damage and to begin to administer disaster recovery services. SBA has directly assisted 26,356 individuals and businesses with loan applications and other inquiries in New York City. It has processed 6,131 disaster loan applications and approved 1,166 disaster loans totaling $156,596,000. Closing documents have been completed in 1,800 loans, and 965 disbursements have been issued for $33,492,000. This is a strong response and shows our commitment to recovery.

I particularly want to thank the Small Business Administrator, Hector Barreto, for being here and to commend him for his strong leadership during these difficult months. He has returned again and again to New York, taking a personal interest in the recovery efforts.

At my request, SBA had responded to the unique challenges Chinatown faces by opening a disaster recovery workshop. Mr. Barreto has joined me on two visits to address community concerns and to award the first disaster recovery checks to struggling small businesses. I appreciate your commitment and compassion.

Today's hearing is an appropriate moment to look back and learn from our experience. No one can fault the effort of anyone who responded to this crisis, but clearly we can always strive to do more and better.

What the SBA needs are new tools for the disaster program to cope with this catastrophe and those that may follow. The American's Small Business Emergency Relief and Recovery Act includes some of these new tools, including disaster recovery grants, low- and no-cost loans and debt forgiveness if bankruptcy threatens a company.

Mr. Chairman, it is outrageous that the House leadership has not brought this innovative and necessary package to the floor for a final vote. We need to enact this legislation soon and with the grant provisions intact. Without grants, we will have a bill that does nothing for small business. I cannot stress this enough.

The leadership has expressed concern that our bill costs too much, but I think that the true cost will be if we do not enact this bill. Small businesses will fail, workers will lose their jobs, and neighborhoods and families will suffer. By comparison, our bill is a bargain. Nothing in the stimulus package is reserved for small businesses. If we can do something for the airlines and the insurance industry, we can take our bill to the floor and pass it into law.

In closing, I would like to thank Mr. Barreto again for his hard work and cooperation. Many thanks as well to the representatives of small businesses for taking the time to be here and sharing your experience and knowledge.

Lastly, I am happy welcome my colleagues, Congressman Nadler and Congressman Moran, here to provide their perspective. I am sure that, working together, we can get the job done.

Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

What we are going to do is take the Members first and then Mr. Barreto, because we may have a vote in about an hour or so. And we will lead off with Congressman Nadler.

I am going to put the 5-minute clock on for whatever it is worth, Jerry. And we all have the same problem, being Members of Congress. But the purpose of the clock is to try to keep your testimony to 5 minutes. When the green is on, you are fine. When the yellow comes on, you have 1 minute. When the red comes on, we get a little agitated but not too agitated.

Look forward to your testimony, Congressman Nadler.

STATEMENT OF THE HON. JERROLD NADLER

Mr. NADLER. Thank you, Don.

Mr. Chairman, I would like to thank the distinguished Chairman, you, Mr. Manzullo, and the Ranking Member, Ms. Velázquez, my distinguished colleague from New York, for responding to requests to hold this hearing and for the opportunity to participate today. I also would like to extend my gratitude to Don Lee, John Calder and Michael Kramer, who are small business owners from my business district who are here to testify about the challenges they face in New York's post-September 11 economy.

Mr. Chairman, the events of September 11 rocked the Nation and left my district in shambles. The tragedy of that day reshaped our priorities, altered our perception of safety and changed the way we approach everyday tasks like opening the mail. Even so, the President has urged us not to be defeated and to return to business

as usual. Mr. Chairman, there are 14,000 small businesses in lower Manhattan that wish it was only that easy.

When the first plane hit the World Trade Center, it set off a devastating chain reaction that put the livelihood of many small business owners in jeopardy. The collapse of the towers, the damage to nearby subway tunnels, the fallen power and phone lines, the restricted access to the area and the haunting stench of still-burning wreckage have all led to a loss of client base, serious property damage and to a tremendous loss in profits. With so many obstacles to overcome, it is a wonder that any small businesses have managed to survive.

But maybe "survive" is not the correct word. Some of their doors may have reopened, but are they really surviving? Small businesses in lower Manhattan will lose an estimated $5 billion in sales in the last quarter of 2001 alone. Many have seen their sales decline by up to 80 percent because of disruption and damage to the area. A thousand businesses have been destroyed or severely damaged and are losing thousands of dollars each day that they are unable to reopen. Another 10,000 businesses in lower Manhattan are at risk of failure as a direct result of the attack. Despite many of them being on the verge of shutting down, most of these businesses have been unable to access financial help from the Small Business Administration.

Mark Panahbarhagh, who owns the Milano Restaurant in my district, has managed to reopen, but he lost 45 days in business in the aftermath of the attacks, and his daily sales are now down 70 percent. Many of his loyal customers have relocated uptown or to New Jersey, and many more, he believes, are driven away because of the air quality in the neighborhood. In the midst of all this, Mr. Panahbarhagh received an eviction notice from his landlord because he cannot afford to make full rent payments, given everything that is going on.

He applied for an SBA loan but was turned down because he has no collateral. And how could he? Like thousands of others, his business has been devastated by the terrorist attacks. In lieu of business assets, the SBA requested that applicants put up their homes as collateral. This, Mr. Chairman, is not a viable option. These businesses are on the line, and the owners should not have to risk losing their homes, which are often their only remaining assets, as well.

Until Lower Manhattan is rebuilt, and certainly until the fires are put out and the air returns to normal, Mr. Panabarhagh's business will suffer. That is why we must find some form of assistance through grants and guaranteed loans to help him and the thousands of others through this transition. The SBA must understand that these are extraordinary circumstances, and special measures must be taken. The fact that, of the thousands of businesses in lower Manhattan applying for loans since September 11, only 359 have been approved south of Housten Street is stark testimony to how badly the system is failing our small businesses. The SBA must change its attitude and its regulations quickly, and the SBA must be given additional authority by Congress. I ask that this Committee explore how to grant that additional authority.

Since September 11, several laws have been enacted to help various sectors of our society deal with the extraordinary circumstances we are facing. Law enforcement has been given broader authority, airlines have been given financial aid and guarantees, and FEMA was given additional resources. In light of this, it strikes me as curious that the representative of the SBA stated at the October 10 hearing of this Committee that the Small Business Administration needed no new tools to assist the small business community in recovering from its biggest blow in history.

I think the paucity of loans approved, especially south of Housten Street, and the inability of many of these small businesses to get loans and the fact that most of these small businesses desperately need grants, not loans, shows that the SBA indeed needs new tools and new authority. I hope that during the course of this hearing the SBA, if it doesn't already, will come to understand why it desperately needs additional resources and authority if thousands of small businesses in my district are not to be hung out to dry.

I hope that today's discussions will lead to concrete strategies to revitalize New York's small business community. This Committee has already taken a step toward that end by reporting H.R. 3230, the American Small Business Emergency Relief and Recovery Act. This legislation would jump-start many businesses by expanding the number of businesses eligible for assistance, raising SBA loan amounts and forgiving the interest on these loans for 2 years.

I believe that equally or more fundamental is H.R. 3272, the World Trade Center Claims Act, which I introduced last month along with Senator Clinton. This bill would provide small businesses with direct relief for property damage, business interruption loss, debris removal and clean-up costs, and it would do so in the form of direct grants for up to half a million dollars each. Although administered by FEMA, it would require the cooperation of the Small Business Administration. These types of immediate grant assistance are what the small business community desperately needs, as the gentlemen and women from my district will attest today.

As I sit here next to my fellow New Yorkers, I am reminded of the countless statements I have heard from small business owners of their willingness, indeed their eagerness, to put everything on the line by reopening their businesses if they can somehow obtain some financial help. They are willing to risk so much because they know what we know: New York's economy cannot be rebuilt without the help of our small businesses. These people were fortunate enough to escape safely, physically safely from the terrorist attacks, but their livelihoods, their dreams are at risk of dying in the aftermath.

I again thank you for holding this hearing and for inviting me and my constituents to participate. I look forward to the testimony today and to working with this Committee to address the needs of small businesses across the country as we recover from the terrorist attacks of September 11.

I thank you, Mr. Chairman.

Chairman MANZULLO. Thank you.

[Mr. Nadler's statement may be found in appendix.]

Chairman MANZULLO. The next witness will be Congressman Jim Moran.

STATEMENT OF THE HON. JAMES P. MORAN

Mr. MORAN. Well, that is efficient, Mr. Chairman.

Good afternoon to you and Chairman Manzullo and Congresswoman Velázquez and all the members of the Committee. Thanks for the opportunity to address this Committee on a very important piece of legislation.

We know that, particularly in the aftermath of September 11, small businesses around the country are struggling mightily to make ends meet. Many of them are going bankrupt, and many of them are laying off long-time employees, and we need to do something about it. It is the lifeblood of our economy.

In fact, since September, we see that the unemployment rate has increased by 10 percent. That means about 700,000 Americans have lost their jobs, most of them in small business; and that is why Congressman Nadler and Chairman Manzullo and the members of this Committee have been working very hard to get this legislation enacted.

John Kerry and Senator Bond on the Senate side have been able to get 60 co-sponsors for this. And it is good legislation because it is targeted to our Nation's small business owners, and it gives them the loans and the management counseling that can help them with paying off their existing debt, financing their businesses so that they can maintain and, hopefully, soon create more jobs. It addresses the shrinking availability of credit and venture capital to small businesses through traditional lenders and investors, because it has become virtually nonexistent since the attacks, and includes provisions to aid Federal contractors who are facing increased costs when trying to access Federal facilities to work on existing contracts.

It is a good bill. It is a bipartisan bill. It was drafted with the help of SBA's lending and counseling partners, small business organizations and trade associations.

I understand that the administration has some concerns with the bill. I trust that they are only marginal and, hopefully, the things have been worked out.

I understand there was a letter sent on Friday, November 30, which seems kind of at the last minute, but I know that there is an agreement that we need to take action to address what is happening throughout our economy, particularly with regard to small businesses. I guess where we part ways is that, in the letter from SBA, it says that permitting refinancing of existing debt, deferring principal payments and waiving interest for 2 years for those businesses who qualify because of September 11 is not a good idea. I think it is a great idea. So I am sure we can get some clarification of that.

We have got letters from any number of industry associations in support of this bill. I am sure that actually, in the short run, because we don't have a lot of time, that this bill is going to be enacted and go to the aid of small businesses, because, as you know, you can't have employees without employers, and small businesses are our principal source of employment.

So thank you very much, Mr. Chairman.

[Mr. Moran's statement may be found in appendix.]

Chairman MANZULLO. Jim, before you finish, could you tell us about what you were able to do at National Airport? Because that goes into grants for small businesses, $25 million there.

Mr. MORAN. I appreciate that, Mr. Chairman. National Airport, as you know, suffered particularly because of the decision to continue its closure. We have several hundred retail establishments within the airport as well as thousands of people in the hospitality and the restaurant, the hotel industry, cab drivers, et cetera.

At one point, the only part of National Airport that was opened was the terminal A because it was an unemployment line. We have about 17,000 people who are directly unemployed, and I think the figure is close to 50,000 who are directly or indirectly unemployed as a result of the continued closure of National Airport, which was a Federal Government decision.

They have trouble getting loans for one thing, because we have got to show that their business is viable. Inside the gates, for security reasons, they are not allowing friends and family to accompany passengers. There is not a critical mass of potential customers. But these are businesses that we have tried to keep in place because, once we get back to some sense of normalcy, we need their business back at the airport.

Again, it is a Federal determination that National should only operate at less than half capacity up till now; and, as a result, we have kept these businesses hanging.

Our homeless shelters are over capacity. People can't afford their rent. Our hospitals are swamped because they have no health coverage. We don't know what to do, and we are a relatively affluent community. I know that there are a lot of parts of New York City that are really suffering as well.

It is not just limited to people directly affected. All of the security measures, all of the anxiety on the part of the American people has exacerbated this unemployment situation, and where it hurts first are the small businesses. They don't have the place to go for capital. They can't get the lending. They don't have a line of credit. All they have is their willingness to go to work every day and the work ethic of their few employees.

That is why this is necessary. Give them a reprieve. This can go as long as 2 years. It can keep them in business. They will pay it back. They need it, and they need it now.

Chairman MANZULLO. What I wanted you to talk was about the $25 million. You didn't answer the question about the $25 million, I don't want you to leave until you tell us what you did to get OMB to set aside money for grants at National. I will let you go, obviously. Because there are small business people getting grants at National Airport, and some have gotten disaster loans.

Mr. MORAN. Actually, in some cases, the Small Business Administration moved almost overnight, within about 3 days, and got loans; and, in fact, there are some businesses that applied over the Internet and got the form on line, filled it out, got money. But others are having a lot of problem.

One of the things that we have done is to provide money to the Airport Authority to relieve the rental costs so that businesses can survive without having to pay their rent and the Airport Authority can continue to pay off their bonds. But that is about to be ex-

hausted. And we understand—we were hoping that they would open up National to about 70 percent. They haven't. We needed it before the Christmas season. Since they didn't, these businesses hung on for the Christmas holiday season. Now they have no place to turn. That was their biggest single source of retail business, and they are not going to get it. That is why now this is their only hope, this bill.

Chairman MANZULLO. Thank you.

Mr. MORAN. That come closer?

Chairman MANZULLO. Yes. You got it now.

Our next witness is the new SBA Administrator. What a time for a new office. But, Mr. Barreto, I know that you are up to it. You have been working very hard on this, and we look forward to your testimony. The reason that we have one panel is that I know you are open to new types of suggestions on what to do. You have limited jurisdiction here. There are other agencies that are involved, and we can work together on this tragedy. We look forward to your testimony.

STATEMENT OF HECTOR BARRETO

Mr. BARRETO. Thank you, Chairman Manzullo, Ranking Member Velázquez and distinguished members of the Small Business Committee. Thank you for inviting me to appear before you today to provide an update on SBA's disaster assistance following the events of September 11.

In the interest of time, I will summarize the SBA's efforts but ask that my complete written testimony be included in the record.

Chairman MANZULLO. All the written testimony of the witnesses and Members of Congress will be made part of the record without objection.

Mr. BARRETO. Thank you.

The administration's primary concern has been to address the immediate needs of those most affected by the tragedy at Ground Zero and the Pentagon. The President, with the support of the American people and the world community, has committed to fight a war against terrorism, and we are fighting that war on many levels. The President has vowed to bring the evildoers to justice, while restoring confidence and prosperity to the American public.

The administration knows that a key factor in economic prosperity is a strong small business community. We can all be proud of our administration's response to the victims of the disaster at Ground Zero, and that includes SBA's role.

SBA staff arrived in New York on the afternoon of September 11 and have been assisting disaster victims at nine locations. We have deployed 94 people in the New York City area and an additional 205 people at the Niagara Falls district office. We also have several of our disaster loan experts from offices around the country temporarily assigned to New York to provide additional support to the area.

We have worked on getting disaster relief information to those who need it. To that end, we have contacted all of the elected officials in the New York City area to provide them with information about SBA's programs by phone, by e-mail and regular mail. Our staff has been canvassing the neighborhoods to talk to the small

business owners suffering from this tragedy in order to inform them of SBA assistance. We have also provided Chinese- and Spanish-speaking translators to assist in that effort.

SBA has directly assisted 26,898 individuals and businesses with loan applications. We have approved 2,029 disaster loans in the declared disaster areas totaling $163,282,500. The average loan size is $80,308.

The hard work of the administration and the agency have not gone unnoticed. We have a disaster team that I am honored to work with. As we have grown to expect, they have gone above and beyond in their efforts to provide relief to small businesses in the fastest and most effective means possible.

We received many compliments on the speed and effectiveness of our response. Governor Pataki and Mayor Giulani have both commented on the excellent work of the SBA, as well as our legislative leaders like Ranking Member Nydia Velázquez.

I think I was most touched when one of our loan recipients in New York said that we were the most humane agency in the government. Now that is quite a compliment and also quite a charge to live up to. We intend to live up to that charge.

We soon realized, though, that the administration and our legislative partners needed to come together as never before to further assist small business. To that end, the administration has worked with the New York delegation to include $1.8 billion as part of the defense appropriations bill for small business grants to be provided through HUD's Community Development Block Grant Program. The administration also included language within the defense appropriations bill that would, one, increase the size standards for businesses located at Ground Zero so that more businesses would qualify as small businesses and therefore be eligible to receive loans.

We also included financial institutions and nonprofit entities as eligible small businesses, and we also asked to increase the loan size limit from $1.5 to $10 million. This language was struck from the bill during floor consideration. However, it has been retained on the Senate side, and we are hopeful that we will be able to provide this much-needed relief as quickly as possible.

In addition to the compliments we have received on the handling of the disaster in New York, we have also heard requests. The requests were that we expand the economic injury recovery beyond Ground Zero. We have heard these requests from our legislative partners like Senators Kerry and Bond and Congresswoman Velázquez and by hearings held by Chairman Manzullo. We have also heard from governors from across the Nation requesting that we assist small businesses in their States. We have also heard from small business industry representatives and small business owners themselves.

I want you to know that the SBA has heard the message, and the administration has heard the message. The SBA programs have evolved over the years to meet these needs. The SBA's Disaster Assistance Loan Program is the primary Federal program for funding recovery for private sector disaster victims. This program offers a low interest loan not to exceed 4 percent, as compared to nondisaster loans which are at a 5 or 6 or greater rate. The term

can be for as long as 30 years, providing greater flexibility to small business owners.

Economic injury recovery loans address precisely the type of injury Congress considered when it developed this product. As a consequence, we have rolled out the expansion of EIDL on a national basis. Through the rollout of the expanded EIDL recovery, we have expanded recovery to small businesses located outside of Ground Zero through our existing disaster loan program. We provided loans to businesses that have been directly injured by the September 11 events and the Federal actions taken as a result of those events.

We have accomplished this expansion through a change to our regulations. By making a regulatory change instead of legislative change, we provided the swiftest and most cost-effective and efficient response to small business. We provided this response starting October 21 of this year. Currently, we have made approximately 323 loans in the amount of $26 million through the expanded EIDL.

The President has asked the American people to get back to business. We know that small business is an integral part of that mission. I look forward to working with the Committee as we continue to assist small businesses who have been impacted by the events of September 11.

Thank you very much.

Chairman MANZULLO. Thank you very much.

[Mr. Barreto's statement may be found in appendix.]

Chairman MANZULLO. Our next witness will be Joan Sweeney. Joan is the Chief Operating Officer of Allied Capital Corporation.

STATEMENT OF JOAN SWEENEY

Ms. SWEENEY. Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee, my name is Joan Sweeney, and I am the Chief Operating Officer of Washington, D.C., based Allied Capital Corporation. Allied Capital is a publicly traded company on the New York Stock Exchange. Today, we are the largest business development company in the United States, with a diversified portfolio exceeding $2 billion. Our business is focused on providing long-term capital to support the expansion of growing businesses nationwide.

Allied Capital has been investing in small and middle market businesses for over 40 years. While substantially all of our lending today does not rely on any Federal program, we do own and operate the oldest SBIC license issued by the SBA. Allied Capital also owns New York-based Business Loan Express. Business Loan Express is a nonbank small business lender with 31 offices located throughout the country and is an SBA-designated preferred lender in 66 markets throughout the country.

In sum, Allied Capital's business is the investment in America's small and middle market businesses.

As a direct participant in the capital markets for small business, we clearly see the challenges faced by companies seeking access to growth capital. Certainly those businesses directly and indirectly impacted by the events of September 11 are facing critical access capital problems. As those companies and impacted communities rebuild and move forward, they need access to capital.

I applaud you, Mr. Chairman, and the entire Committee for introducing and reporting out H.R. 3230, a bill to provide relief for those companies through SBA emergency loans. However, that bill and your efforts go further than that. You have recognized that there are impediments for all small and middle market businesses to access capital in today's recessionary economic environment.

Today, there is a severe credit shortage for these types of businesses. Banks simply do not provide commercial financing to start-up small businesses, or to businesses without sufficient collateral, or to recent immigrants, or for loans that are deemed too small. Commercial lending becomes all that much more difficult as banks and bank regulators become more risk-adverse in an economic downturn. These small businesses only have two options: high interest credit card debt or SBA 7(a) loans.

Yet in today's low interest environment it is somewhat hard to determine who might be overcharging more, given the risk involved, the credit card company charging 18 percent or the SBA charging as much as 3½ points up front. Can you imagine taking out a home loan today and paying 3½ points for origination fees? But that is not all. Under the SBA program, that is not the only fee. Every year the SBA lender must pay to the SBA another 50 basis points in fees on the outstanding balance. In 7 years, this means the SBA is charging on some loans almost 7 percentage points in addition to annual loan interest. How many of you would like to take out a home loan and pay 7 points for it?

These fees are directly or indirectly paid by the borrower; and, in many instances, these fees are paid by no one because the fee prices alone are out of the reach of the potential borrower who could otherwise start or grow a successful business.

What is worse, the SBA charges have created a billion dollar windfall for the Federal Government over the last 10 years. The SBA fees are nothing more than a "capital access" tax on small business. The bill your Committee reported out addresses this issue by temporarily suspending these so-called fees. If you want to increase access to capital for small and growing businesses during an economic recession, this is what you need to do.

Mr. Chairman, I also want to take this opportunity to correct what I believe is a fundamental misunderstanding of the program. I have heard too frequently from those who should know better that fees charged by the 7(a) program should only be modified to help the smallest borrowers, those borrowing $150,000 or less. Why? Because they assert that it is these borrowers who are minorities, women, recent immigrants are somehow who need the help most. That assertion is wrong as a matter of fact and as a matter of sound public policy.

First, the fact is you cannot open a dry cleaning store in Manhattan for $150,000. You can't buy a gas station in suburban Washington, D.C. for $150,000. It is our experience that borrowers who take out SBA loans of $250,000 or $300,000 are just as likely to be a recent immigrant or a woman or Asian or African American. The credit crisis for small business happens to be rather color blind. Yet a disproportionate number of small business borrowers at every loan size happen to be represented by women, minorities and immigrants. They pledge their homes, their bank accounts and

anything else they own for a chance to better for themselves and their families. They work hard, and they benefit our economy. And the programs low default rates show that the vast majority of these businesses succeed.

Chairman MANZULLO. How are you doing on time?

Ms. SWEENEY. I am done.

[Ms. Sweeney's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Alice Yan, and we look forward to your testimony.

Thank you, Congressman Moran, for joining us.

STATEMENT OF ALICE YAN

Ms. YAN. Thank you, Chairman Manzullo and Ranking Member Velázquez, for having this hearing.

My name is Alice Yan. I own and operate Acupuncture Therapeutic Care at 188 Lafayette Street in New York City. I am a New York State-certified acupuncturist. I have owned my company for 2 years, and I am the only employee. I worked as an acupuncturist in Houston, Texas, before moving to New York to start my own business.

Since September 11, my business has had a difficult time. Before September, I would have three or four customers a day. But now, I see three or four per week.

Some of my clients come all the way from Queens and Long Island. But now it is very difficult for them to visit my business. Security keeps people from driving alone into Manhattan. Traffic and air quality are very bad. And, after September 11, people are holding money in their pocket.

Like many others in New York, I was worried about how my business would survive. That is why I am very grateful that Asian Americans for Equality told me about the Small Business Association disaster loan program. I did not know it existed before then.

I applied for an economic injury loan from the SBA. The process was very complicated and took over a month to complete. I asked for $50,000, but SBA only approved me for $9,300. They asked me to put up my collateral for almost half of that. I took only $5,000 from SBA.

After all that time spent I really feel a great inconvenience and my feelings very hurt. In the last week before I received the SBA loan, Asian Americans for Equality approved a much larger disaster loan for me.

The loans help me pay my rent and expenses while I worked to attract new customers. I really appreciate the SBA loan, and I am working very hard to pay it off soon.

But I hope the Committee can learn from my experience. Dealing with the SBA at the Community Center in Chinatown was difficult, sometimes more difficult than with commercial lenders. SBA took too long. In the first month after September 11, I had almost no customers. I needed help immediately, and I worried I would lose my business.

I hope you can find a way to speed up the loan approval process. There is a lot of paperwork to apply for a loan, and it is very complicated. In fact, some of the paperwork needed a CPA, which cost me additional money before I even qualify for a loan.

After I filed my application, SBA would call often to clarify problems. For example, they didn't understand that I don't own my home, I lease it. They asked the same question over and over again with different people. Constant interruption makes it difficult for me to work.

I hope that, in the future, the SBA can work more quickly and more easily with small businesses like mine. There should be less paperwork, and it should be easier to understand.

SBA needs to know how difficult it is for business like me, where I am the only employee, to find the time to deal with this complicated process. Every loan application should go more quickly, without the help of an outside group like Asian Americans for Equality.

I am very grateful for the help SBA provided, because it helped me keep my business open. I am here because I hope the other businesses can learn and benefit from my experience.

I would like to thank the Committee for holding this hearing and for giving me the opportunity to talk about my experience with the SBA.

Thank you very much.

Chairman MANZULLO. Thank you.

[Ms. Yan's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Don Lee of the Chinese Consolidated Benevolent Association.

Mr. Lee, we look forward to your testimony.

STATEMENT OF DON B. LEE

Mr. LEE. Good afternoon, ladies and gentlemen. Thank you for inviting me to participate in today's hearing.

My name is Don Lee. I am here in my capacity as the Disaster Assistance Coordinator of the Chinese Consolidated Benevolent Association, CCBA, located at 62 Mott street in downtown Manhattan.

In response to the September 11 terrorist attack, the CCBA has provided without cost or charge office space, equipment, supplies, food, water and other services to those affected by this tragic event. The CCBA's conference rooms and auditorium have been converted into satellite offices for various relief agencies, charitable organizations and government agencies, including FEMA, the Red Cross, Department of Labor and the SBA, and also organized more than 150 volunteer interpreters. Services include multi-lingual information sessions and direct services including the intake, preparation of disaster loans and grants on site for both residents and businesses. In its last report, FEMA reported more than 16,000 visitors have been served at the center since it went into operation on September 20.

While the community is extremely thankful and impressed with the professionalism and dedication of the SBA and FEMA staff, the business community found effectiveness and efficiency of the overall relief program to be woefully inadequate. In many instances, the process frustrated those seeking assistance, and many more were disappointed by the outcome. They felt that their expectations were unreasonably raised and their efforts and energy wasted.

People, process and technology are the components by which problems are solved. Without being overly simplistic or critical, our observation is that the SBA and other relief agencies simply did not have enough people who could effectively communicate to the victims. The process is long and tedious, particularly since pen and paper is the primary intake and feedback of technology.

As we hope and pray that our Nation will never have to deal with another tragedy, I feel compelled to share with you several of our observations, concerns and recommendations for providing relief to small businesses in immigrant communities in an urban environment. The following are areas of concern, with recommendations:

Risk factors. There are two primary risk factors that discourage victims of this tragedy from either applying for or accepting loans from the SBA.

The first is the personal risk. An owner of a toy store in the community turned down a $50,000 loan from the SBA, funds that he needed to carry him through the holiday season, because the SBA required him to risk his only tangible asset by mortgaging his home. He felt that the psychological burden of placing his family shelter at risk outweighed the burden of trying to restart his business.

The other risk is the success and recovery capability of the overall local economy. As one restaurant supplier said, helping me to reopen is not enough if my customers cannot get help. All the SBA has done is to get me into more debt.

Recommendation: The SBA should provide stimulus programs that will assist each sector, an uplifting of the entire community, without forcing unreasonable economic, legal and psychological risks on the victims. Only then can we fashion a solution that is meaningful.

Operational efficiencies in other areas. There were insufficient or no trained bilingual staff interpreters until much later. The problem is the red tape. These procedures, forms and instructions are confusing even for those fluent in English. The problem is magnified for applicants who have limited English capability. Forms, applications are also not available in other languages. While small business may not have the necessary expertise to complete each application, they do possess the know-how to show up with the necessary documents.

Perhaps the SBA can create a prequalification package written in different languages outlining the requirements as well as an approval process. The forms are unnecessarily complicated and tedious, as mentioned earlier.

And here is another point. Many immigrant businesses are created by many family members or friends pooling their life savings together. By requiring each and every partner to provide their own historical financial information, the SBA multiplies the burdens and adds complication to an already tedious inefficient process. Again, the information should be readily available from government entities.

Timing. Small businesses, especially in immigrant communities, runs extremely low on profit margins. This week's intake pays for

next week's supplies. It is critical for loans and grants to be made available quickly.

One example is a tour operator who built their entire business by pulling together their entire life savings to lease several tour buses, and the vehicles were repossessed because they did not have the cash to make the payments. These are the same situations with many limo drivers and taxi drivers in the area. With their entire life savings wiped out, it is unlikely these hard-working Americans will have the capital needed to restart their business anytime soon.

All of us in our community support the President's call to be stronger than ever in the face of this attack. We do have the courage to deal with the challenge of rebuilding our economy. To offset the impact we do need help from agencies like FEMA and SBA. Inefficient operation hampers the recovery efforts, drains resources and demoralizes our community.

This disaster has been extraordinary and unprecedented. I believe the relief must be extraordinary and unprecedented.

Thank you.

[Mr. Lee's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is John Calder, who is the owner of Steamer's Landing Restaurant.

Ms. MILLENDER-MCDONALD. Mr. Chairman, may I just ask that other witnesses summarize so we can have——

Chairman MANZULLO. We only have three left, and they will be pretty quick.

If you want to take less than 5 minutes, that would help out.

STATEMENT OF JOHN CALDER

Mr. CALDER. Mr. Chairman, Ranking Member Velázquez, members of the Committee, thank you for inviting me to testify today before you regarding my experiences regarding September 11. I will go right into——

Chairman MANZULLO. Mr. Calder, you can take the 5 minutes; and same with you, Mr. Kramer and Mr. King.

Mr. CALDER. I am the major shareholder and co-manager of Steamer's Landing Restaurant located on the esplanade between Liberty and Albany Streets in Battery Park City. We are located just two blocks west of the World Trade Center site. My restaurant, my partner and 35 employees were directly impacted by the physical and economic damages wrought by the attack.

By 9 a.m. on September 11, Steamer's was full of people who sought shelter and hope of escape. Before the buildings came down, police and fire officials broke my windows. As the towers fell, Steamer's became a giant vacuum cleaner as the 125-mile-an-hour wind created by the suction from the floor from the World Trade Center and around our building, which is a 35-story building above, just filled with dirt, unspeakable debris. Every nook and cranny was filled.

For the first several days I had tried in vain to get to Steamer's. Finally, 10 days later, I was able to remove some valuable papers and dispose of rotten food. Two weeks after that, we started taking inventory and talked about reopening in the spring.

Half of our chairs, our outside furniture was missing and scattered around the neighborhood. Debris was everywhere. And not

knowing the content of what had been—that content of what had been, it was difficult to deal with—talking about the debris in the neighborhood—replacing $25,000 in ruined food and beverage and HVAC system as well as several refrigerators and electronic equipment, plus the furniture, repainting, and refinishing must now be accomplished. A new ceiling must be hung, because the building suffered a leak that came down from the 17th floor into the restaurant. There was also a fractured sewerage tank in my cellar and a flood in the basement when the electrical went out.

At first I was crazed that no government agency was offering to clean the debris of the World Trade Center from inside my restaurant. Now I want to create something new and fresh, and I am optimistic that we will succeed sooner than later.

Financially, I thought the insurance would help, because I had bought business interruption insurance after the first World Trade Center bombing. We also have replacement value in the policy. Yet the adjuster who is assigned to Steamer's talks of dusting the place off and reopening as soon as possible.

In almost 3 months, I have received just $40,000 from my insurance. Our monthly overhead is about $30,000. We had $40,000 in the bank account on September 10, which is now depleted.

Our destroyed inventory was worth approximately $100,000 in resale value.

Personally, this experience has meant tremendous financial hardship as well as being an emotional disaster. We have been able to take advantage of two grants totaling $10,500. Hopefully there will be more grants available for working capital and improvements. I remain optimistic about the insurance.

In mid-September I applied for an SBA loan just in case other sources failed. I spent time with my accountants and submitted the proper forms. The SBA inspector who inspected the Steamer site said he could not get into the restaurant—this was early before we were able—allowed to get into the area, which is about 4 weeks after the bombing—but said not to worry, he had a good feel for what had happened and had to leave for Buffalo the next day. It was impossible for him to know the extent of the physical damage, especially in the cellar, the ceiling, the HVAC, the loss of property.

On October 11th, I was told that I would be awarded $150,000 loan, but was told the government would have to take my home as collateral. Since my wife and I jointly own our home, and she is not involved in my business, pledging our home was out of the question. They could not recommend an alternative accommodation.

As of September 10th, I had—I had a $110,000 line of unsecured credit with my bank and a good balance sheet. I could not understand the refusal, since this was purely business-related. Steamer's Landing, my only business, sits in a beautifully maintained park in Battery Park City. It is located right on the Hudson River. For 12 years we had maintained a relaxing atmosphere while——

Chairman MANZULLO. How are you on time, Mr. Calder? The red light is on.

Mr. CALDER. My emotions are——

Chairman MANZULLO. I can understand that.

Mr. CALDER. I am awfully sorry.

Chairman MANZULLO. You don't have to apologize for anything. You have suffered a great loss.

Mr. CALDER. I am almost through.

For 12 years we have maintained a relaxing atmosphere while offering good, dependable food to those who occupy the 175 seats and 2 outdoor terraces. A bar and 80 seats fill the interior space. The Statue of Liberty, the intense colorful sunsets and the shimmering river finish the decor. The Twin Towers rose forever up behind us and were in the view as well.

I opened my first restaurant in New York City in 1968——

Chairman MANZULLO. Mr. Calder, I am going to have to cut you off. We are going to have a vote in about 15 minutes. I want to have two more witnesses——

Mr. CALDER. Can I just finish one more paragraph?

I believe the combination of new grants, loans and tax and wage credits must be created as well as new criteria by which loans are approved and other preloan requirements. I also believe that we have to work together on this until we see the light. We all need a long-term commitment from each other. If nothing is changed from this legislation, it is just another exercise, and God help us. Thank you.

Chairman MANZULLO. Thank you very much.

[Mr. Calder's statement may be found in appendix.]

Chairman MANZULLO. Our next witness is Michael Kramer of Audio Systems Technology Sound and Video. If you could abide by the 5-minute rule, I would appreciate that. There is no penalty for going over.

STATEMENT OF MICHAEL KRAMER

Mr. KRAMER. Thank you.

According to J.P. Morgan Chase, before the World Trade Center attacks, there were nearly 7,800 businesses with annual revenues of $10 million or less at Ground Zero and about 34,800 of them south of 14th Street in Lower Manhattan. As an owner of an audio video retail store, I am proud to be asked to come to Congress to champion a new legislation, and I thank the Chairman for H.R. 3230 and our Congress Member Nadler for H.R. 3272.

I am a lifelong New Yorker, leaving only briefly to attend college in Beloit, Wisconsin, and graduate school at the University of Kentucky.

After watching the first plane hit the first tower while crossing the street to my office, the shock of witnessing firsthand an act of war is something I will never forget.

Chairman MANZULLO. Mr. Kramer, could you bring the mike back just a little bit there?

Mr. KRAMER. Yes.

Although we suffered no physical injuries, this economic and psychological trauma has haunted us ever since. Our location was in the frozen zone for the rest of the month of December. No customers were allowed to walk below the demarcation line of Canal Street on foot, and up until as recently as 2 weeks ago, any motorists trying to visit us had to pass through a checkpoint that included a New York cop, a New York State Trooper and an army guy.

In the months of September, October and November, our customers have had to run a gauntlet in order to patronize our store. There is an acrid smell of smoke from the fire that will continue to burn into spring of 2002. Whenever a large piece of debris is lifted, the rush of fresh air fuels the burning of who knows what kinds of chemicals, exposing us to health risks like PCBs and asbestos.

With only 7 days of receipts for September, we still had to be timely with our October rent of $14,000 for our fancy Tribeca corner store location. FEMA worked with Chase Bank to extend our line of credit by $10,000 to satisfy our landlord.

As soon as we could take stock of our situation, we contacted FEMA for help. Their response was to refer us to the Small Business Administration, and the SBA had only one instrument available to help us in the form of an economic injury disaster loan, which is defined as assistance that is available only to applicants with no credit elsewhere available. Our firm was turned down based upon an unsatisfactory credit history and inadequate working capital, resulting in a lack of repayment ability. In short, without putting up our homes as collateral, we did not qualify for the only form of Federal assistance available, a low-cost loan.

We need and we needed grants, not loans. Why go further into debt to finance a business without customers for a significant period of time? Why should we be asked to choose between staying open and paying off debt? Why make commitments to staying in the downtown section of Manhattan if the SBA has likewise turned down 70 percent of our commercial neighbors?

Small business people are by definition initial risk-takers, entrepreneurs who pioneer ideas. We need the opportunity to have access to a grant program to help provide monies without payback or assuming any more debt so that we can make immediate repairs to pay our rents, to meet our payrolls and keep our staffs employed until conditions improve. Starting all over again because of a terrorist attack was never a scenario that we considered.

This was an act of war. It wasn't a natural disaster. Assuming that the SBA was not around in 1816 when the White House was burned down by the British, it is quite clear they had no program in place to deal with a completely different set of issues. Who was looking out for the tens of thousands of small business people in Lower Manhattan who have had their day-to-day life and long-term prospects turned upside down?

The airlines and the insurance companies seized the moment and got bailed out by the Federal Government. The SBA Administrator, who I met at the Pier 94 intake center, didn't have what I needed, because it was not in his range of experience as a weather-related event. Collectively, we all speak now of our lives post-911 and the trauma that we have all suffered. It had nothing to do with the weather.

We are the last people you would normally see asking for public largesse. Small business people are fiercely resilient. We have a strong independent streak, but these are extraordinary times in the downtown district. We need direct Federal grants to pay our overhead costs and to regroup and allow us to hang on.

Our customers are hesitant to come back until the fires are out in downtown—in Lower Manhattan. The only people coming down-

town now are the tourists, who have been asked by our mayor to stay away, to stop taking pictures of a mass grave and crime scene and give us time to heal.

Yes, it is presumptuous on our part to ask Congress to allocate direct Federal grants, but we are New Yorkers, and they will provide the financial and technical resources that are needed to keep our small businesses afloat and help subsidize the retention of thousands of low- and middle-class jobs, because it is just pure common sense.

This disaster has made us all New Yorkers. We are very proud to share our heritage with our Nation and with the world, and when I read in the testimony about how providing disaster assistance by the Small Business Administrator in the forms of loans rather than grants creates an incentive for property owners to be underinsured against risk or to expect a Federal bailout, I would say, he just doesn't get it.

Thank you.

[Mr. Kramer's statement may be found in appendix.]

Chairman MANZULLO. Okay. Thank you very much, Mr. Kramer.

Our next witness is James King. Mr. King, is the New York State director of the Small Business Development Center. Mr. King.

STATEMENT OF JAMES KING

Mr. KING. Mr. Chairman, Ms. Velázquez, members of the committee, thank you for the opportunity. I have to admit I was one of those organizations that had one of those weather-related disaster plans, and it went out the window on the 11th.

The SBDC is a unique partnership between SBA host institutions, the State, and the private sector, and we relied upon every element of that partnership to come into play for our response to the September 11th disaster. I would like to recognize the Administrator, Hector Barreto, for his leadership in providing us with some of the resources we needed during this time. It seemed like every time I was in New York City, he was there, his presence and support was very much appreciated in a very critical time.

On the 11th, I was traveling with the deputy associate administrator for SBDC, and that was New York's good luck. Johnnie Albertson provided us with some supplemental funding the day after the event that allowed us to start on a disaster recovery effort. She also organized all 57 States to provide New York with some specialized funding that was made available from California to cover our disaster efforts for most of this year, but I think we are looking at a long-term effort with the small business community to recover from this disaster measured in years not months.

The SBDC recovery plan said all 23 centers across New York State were committed to providing experienced staff to provide services within the disaster area. I am pleased to let you know that all 23 centers have responded, and we have been able to move over 40 additional staff members into the New York City market to provide direct assistance to impacted small businesses.

The SBA's disaster loan program, I think, was confronted with the largest-scale disaster it had ever seen. Luckily, the State cooperated very closely with SBA in setting up those initial hotlines

in the first few days to capture businesses needing help, and coordinated with FEMA. A lot of coordination efforts were accomplished.

On September 25th, SBA broke the tradition and approved the SBDC to provide SBA disaster loan applications and assistance in completing those applications. That was critically important, because during those first few weeks after the event, travel was restricted, and a lot of small business owners could come into SBDC offices across the New York City area and obtain assistance with the application without having to travel back into the disaster area.

I also would like to commend Aubrey Rogers, who is the district director for New York City. Aubrey was in the impact area. He operated from a cell phone and on the run. He coordinated volunteers, assisted our offices with coordinating door-to-door efforts to involve more small businesses in the recovery effort.

New York State came to the forefront. Again, the State's economic development agency started discussing small business needs, and they became a very nimble entity that we were coordinating with, bringing support programs to bear in usually unheard of times of less than 48 hours.

Our third partner in this was the private sector community, and I would just like to point out a couple corporations to you. First of all, we did launch our own microloan fund for small businesses that would slip through the cracks with some of the other efforts. American Express, Deutsche Bank and the Principal Financial Group became our founding sponsors. We have raised over a million dollars and are issuing microloans to small businesses across the impact area. Right now we are restricting it to 14th Street and below.

Destruction to communications was really awful for small business. Compaq Computer donated 60 computers that we put in offices across the region to allow firms to have direct access to the Internet and any other communication needs they had.

Companies like Intuit stepped up, providing new copies of Quicken, Quick Books. I think every small business is familiar with that. We distributed over 500 free copies of those.

The financial institutions stepped up to the plate, and the best example I can cite was—within the first week, a small towing company that couldn't meet their payroll at the end of the week because they would have been removing cars and damaged vehicles around the clock from ground zero. Their loan of $50,000 was approved in 3 hours, after some faxes with one of the New York City banks.

Given these efforts, has it been enough? Has SBA and the other agencies responded? Are the Federal programs there to respond? Speaking as the SBDC director, I have to say no. There are many more things that we need to do. The U.S. Chamber ran a report that said that after the attacks, revenues plunged for 57 percent of businesses an average of 34 percent, but small business remains optimistic.

I think that we have key obstacles in the way, some of the size standards, the restriction on financial services, and they need to be addressed today. I applaud the committee for 3230 and hope that

everything that is possible can be done to push that legislation forward. Thank you.

Chairman MANZULLO. I am glad that you like our bill. Maybe we can convince your boss to sign on to it.

[Mr. King's statement may be found in appendix.]

Chairman MANZULLO. Mr. Mitchell, would you like to sit next to Mr. Barreto to help him with some of these questions that may come along?

Mr. MITCHELL. Sure.

Chairman MANZULLO. Herb Mitchell is the director of the disaster program. Please feel free if when a question comes to join in an answer, because I know these are extremely difficult and technical questions. And, Mr. Barreto, I know will look upon you for your wisdom and advice in this area.

Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. And I want to thank all of you for being here today. I think this has been very helpful to us, and it is great that we have all the witnesses and at the same time Mr. Barreto is here so that we could have an exchange of—a dialogue among the witnesses and the administration.

Mr. Barreto, I have a lot of questions, so please try to be as short as you can and address them. We have seen—we have heard anecdotal evidence that the loan decline rate from New York is leaning above what the rate has been historically. Why is that?

Mr. BARRETO. I want to make sure I understand the question.

Ms. VELÁZQUEZ. Disaster——

Mr. BARRETO. Disaster decline rate in New York?

Ms. VELÁZQUEZ. Yes.

Mr. BARRETO. Right now the percentage of loans that we are approving is approximately 46 percent. Nationally what we have seen in other disasters is approximately 50 percent, but one of the things that is very different is the makeup of the loan applications. Oftentimes when we are responding to a disaster, an earthquake, a fire, a tornado, 80 percent of the applications are coming in from homeowners, and only 20 percent from small businesses. In this instance, it has been exactly the reverse of that. Eighty percent of the applications that we are receiving right now are from small businesses. Only 20 percent are from homeowners.

Even when you take out the loans that would not qualify because they are too large or there is credit problems or a judgment from the IRS or something like that, the percentage raises significantly higher than that, especially when you look at the economic injury disaster loans that we are doing across the Nation. I think the percentage jumps up to over 60 percent when you pull out some of the loans that wouldn't have qualified anyway. But when we are doing our calculation of that, we calculate everybody that actually applied for one of those loans.

Ms. VELÁZQUEZ. Yeah. Mr.—we heard Mr. Lee and Mr. Calder and Kramer and Alice Yan, you all talked about the disaster loan program and how complex and the red tape, but even if we have the perfect world that we have bilingual forms that is just one page and all that, it seems to me that what you are telling us is that the disaster loan by itself is not enough, and that in some cases is not the answer.

Mr. Calder, the Democrats on this committee, we were successful in including a business grant program into H.R. 3230, the American Small Business Emergency Relief and Recovery Act. Could you talk more about how a grant program will be helpful to you?

Mr. CALDER. I think the concept of the grant as opposed to the loan, again, we have to look at why we are in this situation, and I think more business people are looking at why we are in this situation. We are not there because we want to expand our businesses. We are there because we want to keep them alive. In an area where, you know, obviously you as bankers are not terribly confident that business is going to return right away or quick enough to be able to—for businesses to stand on their own. I am not a banker. I am a renter. I make steaks. I do all sorts of other things. I like to create food and serve my customers.

Ms. VELÁZQUEZ. And I hear that they are great.

Mr. CALDER. Thank you. But I—you know, I think in looking at this whole thing, it is going to take a long-term commitment, and with maybe a combination of grants, which are important to us, because, again, we weren't there, and we had no choice about the situation. We—some of us can't afford to pay loans. We already have loans that we are paying, and high interest rates on that can't be absorbed by the low interest rates of the SBA. One good way if you could do that, but our banks still want to keep their loans and keep their rates.

Ms. VELÁZQUEZ. Thank you, Mr. Calder. I will encourage you that you reach out to Senator Clinton and Senator Schumer and ask them to support the grant program that is included into this legislation.

Mr. Kramer?

Mr. KRAMER. I would just add that what we are looking to do is cover our out-of-pocket expenses. You know, in the month of September we didn't anticipate having to pay our staff with no revenue coming in, to have to pay the rent with no revenue coming in. That is the purpose of grants.

Ms. VELÁZQUEZ. Thank you.

Mr. Barreto, on October 22nd, you expanded the disaster loan program to businesses outside the declared disaster area that could show significant economic injury that are related to the terrorist attack of September 11th. Today only about 13 businesses have applied. Why is it that the Economic Injury Disaster Loan Program nationwide has so few applicants?

Mr. BARRETO. Well, one of the things that we have tried to do is a lot of outreach. We have been communicating with a lot of the Chambers of Commerce, business organizations, and of course, we work through our network of over 70 district offices in the country.

One of the things that we have communicated is that these loans are for businesses that were impacted directly by what happened on September the 11th. For example, businesses that would have been located in airports, or if you had a business, for example, that taught flight training school, or planes that have the signs behind them at the stadiums that we all go to, or somebody in the tourism industry. There are very specific criteria. But we are continuing our efforts to get the word out. There has been interest.

Obviously this regulation change was enacted after we began our other disaster response efforts, and so some people are just getting the word on that now. And we have also tried to make sure that we have provided it in different languages as well so we could make sure all communities are receiving this information.

Ms. VELÁZQUEZ. It seems the response has been light, and you know that we are talking about a deep recession. Would you consider to extend the deadline of October 22nd?

Mr. BARRETO. We will always look at extending the deadline, especially if we see that there is a lot more interest and there is still a lot of people that haven't been informed. In fact, we have already extended the deadline once. We want to do whatever we can to be responsive to all those small businesses. We also want to make sure that we educate them about the other things that we have available to them.

I totally agree that access to capital, especially in this time, is very important to a lot of small businesses. There are other things that SBA does, too, entrepreneurial development, technical assistance, especially when businesses are struggling right now and looking for some solutions to business, and that can be very valuable, obtaining contracts from the public and private sector and many other services. So we are using this opportunity of outreach to also communicate the other tools that are available to small businesses.

Ms. VELÁZQUEZ. Mr. Chairman, I just have one more question.

Chairman MANZULLO. Sure.

Ms. VELÁZQUEZ. We have here the Congresslady from the Virgin Islands, and we have all the people from Florida who have been concerned about the resale of these disaster loans, and we hear anecdotal testimony concerning cases of aggressive loan collection practices. Would you consider protecting this loan from resale?

Mr. BARRETO. Well, we have been very flexible in looking at our whole loan sale program. In fact, we delayed a sale that we were going to have because we just felt that it was the wrong time. We also have looked at ways that we can remove loans that are directly impacted. For example, if somebody has a disaster loan already that was impacted by September 11th, we have looked at that. We are looking at all of our processes.

One of the things we thought that we have to do a better job of is communicating to people when a loan may be subject to one of these loan sales so that if they have difficult circumstances, they can appeal those circumstances, and we can do something about it before that loan is sold. So obviously we are very sensitive to areas like the Virgin Islands, Puerto Rico, Florida. All of those areas have been impacted directly by what has occurred on September 11th, especially the tourism industry, and that is actually where we are seeing some of the most interest for these economic disaster loans in these tourist areas. We are doing everything we can to make sure that they are aware of what their options are.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you. One of the problems, first of all, nobody can prepare for a disaster where two jet aircraft go into a building, and no one is expecting anybody to have had a standby plan for that. But here are the problems, and Mr. Barreto, these

are—they are not your problems. You are a piece of the recovery program.

First of all, Congress decided to give away several billion dollars to the airline industry. I have a list here from the U.S. Department of Transportation, a list of air carrier payments as of October 5th, which is a late date, and in here we have, for example, two helicopter companies. Grand Canyon Helicopter got $340,000. ERA Aviation got $204,000. Now, a company in New Jersey that is in Mr. Ferguson's district, we have got to fight like hell to get the loan, and I called this meeting in order to push SBA to the edge in order to get the loan. They were not given the loan because of sizing standards, which Mr. King referred to. And as I look at the sizing standards, I scratch my head and say, there is a big problem. I refer to the regulations.

Here is the situation with the helicopter people. Ms. Velázquez owns a helicopter service, and so do I. She has 10 employees, and so do I. She has three helicopters, and so do I. She is in the regular commuter service for helicopters. I am in the tourism service. She gets an economic disaster loan at 4 percent. Somebody in Colorado gets a grant, and I get nothing. That is not acceptable. And I had to call this hearing to get the SBA to move.

We have got one opinion after the other. You can appeal. You can do this and you can do that. I mean, if I had been in that helicopter business, I would have raised hell, and that is what they did. They went to Mr. Ferguson, they came to the Chairman, and what concerns me is the fact that I don't think the SBA understands the totality of the situation.

For example, why should the SBA be fighting the House Small Business Committee, the Senate Small Business Committee, most of the Members of the House, most of the Members of the Senate to ease up the restrictions on allowing 7(a) loans to be made? I mean, I get this letter dated November 30th to Chairman Kerry, and it says, given the administrative changes SBA has already made in the Economic Injury Disaster Loan Program, we don't believe statutory changes made by S. 1499 are necessary.

I don't know who wrote this letter, but I think whoever wrote the letter didn't read the bill. I mean, economic injury, that is a small portion of it. I am just at the point now where, you know, finally the helicopter service is going to get its 4 percent loan, and that happened maybe 3 hours ago when suddenly the SBA decided to act.

Now, what I would like to do is this. There is a big problem with size standards. There is no one that can justify the scenario that I laid out as to who gets the loans, because somebody is picking winners and losers, and what I like to do is to have just a working group, and I am going to commit—see if you would commit yourself to it, Mr. Barreto. Ms. Velázquez and I would head it up, with some of the small business groups to be able to say, look, you have got to move faster, because that helicopter company would have gone bankrupt had they not contacted their Congressman, had I not gotten personally involved in it.

If you look at the economic injury disaster loans, these are not a substitute for the bill that we have been proposing. It is just a portion of it. In fact, the—of the total amount of applications made

on it, there were 13,597 applications issued. Applications received were 1,544. That is because of onerous size restrictions. I went through that thing on the Internet last night, and you can—if you are under 5 here, if you are under 15—I mean, all the way from 1,500 employees to under $5 million in sales. This doesn't make sense, and the SBA has the authority through the Director to be able to waive these restrictions on here.

But, again, of those economic injury disaster loans, 13,597 were applications issued, 1,544 applications received, 323 approved, 443 declined.

What I am going to do is this: If I have to save small businesses in this country one by one, I am going to do it, and I want to be able to sit down with somebody from the SBA next week and go through every single one of those applications, all 453, and I want somebody there from the SBA who has the authority to make a waiver on each of those. Would you be willing to commit yourself to do that?

Mr. BARRETO. I am always committed to working with you, and I would be happy to be involved in any committee that you or Ranking Member Velázquez would like me to. We want to do everything that we can to look at every situation. If there is a situation that deserves a second, a third, a fourth look, we are happy to do it. We are constrained as well by our policies and procedures, but whenever we can provide the flexibility necessary to right a situation that needs to be righted, we would love to do that. So, yes, we would love to work with you on that.

Ms. VELÁZQUEZ. Would the gentleman yield?

Chairman MANZULLO. Yes.

Ms. VELÁZQUEZ. We understand all the restrictions under the law, and, in fact, we cannot blame you, because you are administering a program that was created by an act of Congress, and you have to comply with the restrictions and limitations. But would you support H.R. 3230 that will give you the power to make decisions and to waive restrictions on limitations?

Mr. BARRETO. I am happy to work with both you, Ranking Member Velázquez, and Chairman Manzullo. I think it is very important that we all have a very strong participation in this process.

Chairman MANZULLO. Mr. Barreto, you need to answer the question. You say you are bound by your rules and regulations. We want to change them, and that it is not a matter of working with us. We need this done. We can't wait any longer on it. I appreciate working with you. I want to get something done. I practiced law for a long time, and there is nothing more complicated than the legal process. This thing about the helicopters, they would have gone under had I not personally gotten involved. If I have to get involved with 453 cases, I will do it one business by one.

I want a meeting next week. I want somebody with authority sitting next to Ms. Velázquez and me who right there can make the determination that the loan will be done, will be given. Could you grant us that assurance?

Mr. BARRETO. Absolutely.

Chairman MANZULLO. Good. Doesn't get much better than that. Yes, Mrs. Tubbs.

Mrs. TUBBS JONES. Thank you, Mr. Chairman, Ranking Member Velázquez.

Mr. Barreto, after we recover from September 11th, I want to keep reminding you that we met on September 11th in the Capitol.

I am going to go directly to the issue that I raise. I have a statement that I wish to admit for the record, Mr. Chairman, and attached to that statement is a letter that has been signed by 11 of my colleagues and myself to speak to you on the issue—I am going to have my staffer pass it to your staffer—an issue that fortunately was approved in 3230 that would allow credit unions across the country to administer 7(a) loans.

And the reason we proposed it and it was approved by this committee, there are so many applications for small business loans, and in many areas where there are not large banking institutions, it is very difficult for many of the small businesses to access a banking institution who wants to administer a small or microloan.

So in that letter signed by a number of my colleagues, there is a proposal to you. 3230 only expands the opportunity or the ability for the SBA to allow member credit unions to expand or to administer the small business loans for 1 year, consistent with—or in keeping with September 11th. But the letter proposes that your procedural rules be amended to allow member credit unions to administer SBA loans permanently. And I know there has been some concern within the—not the administration, but within the SBA as to whether or not you are authorized to do that. And in the letter, as well as in the legislation, we cite an attorney general's opinion that, in fact, says that you may, within the authority as an administrator, allow that to occur.

I would like to go on and on and on with my inquiries, Mr. Barreto, but I decided that because we are short in time, that I will not go on. This is one of the most important things for me to be able to do on behalf of many of the small businesses across this country who really don't have access. You go to many communities—and I am on banking, and I love the banking institution world, but they have closed down the ATM machines, and people that are running businesses in small communities just don't have access. So it would be great to have the credit unions do that.

I offer that to you, Mr. Barreto, and any response you would care to give, or your assistant, I would accept.

Mr. BARRETO. Well, thank you very much, Congresswoman, and I really appreciate your comments. It is ironic that I ran into somebody that led one of the largest credit union associations yesterday, and we have agreed to get together and to continue exploring ways that we can work together. Anything that gives us the ability or the authority to be able to change our policies with regards to credit unions, we will absolutely follow that.

But I think there are a lot of opportunities, and I agree with you. Sometimes credit unions may be the only opportunity that somebody has to get these very valuable financial services. So we would pledge to continue working with you and to meet with the leadership of the credit unions association and find some solutions to this.

Mrs. TUBBS JONES. And it is included in the legislation as well, so we are hoping that you will be able to support our legislation.

And I thank you for the opportunity to inquire, and I yield the balance of my time, Mr. Chairman.

Chairman MANZULLO. Thank you.

Mr. Bartlett.

Mr. BARTLETT. Thank you very much. Several years ago in the farming community in which I live, after several years of low rainfall, there was a pretty intense drought which brought our farmers to their knees, and it was declared a disaster area, and the Department of Agriculture and Small Business Administration came in with loan assistance programs.

I remember one of our farmers who made the plea, I am already drowning in 9 feet of water. How can you help me by making it 12 feet deep? What he meant was he already had more debt than he could carry.

Bankers are eager to loan money to our farmers, because they have real estate that is worth far, far more than any debt that they owe. What they needed as a bridge to get them through this disaster period was a grant, and there were very few grant dollars available. Clearly, the World Trade disaster is kind of the equivalent of a drought. It didn't happen yesterday. Hopefully it is not going to happen tomorrow. Now, we have routine droughts, but this was several years of low rainfall and then a rather acute drought following that, which was really quite unusual.

I am not convinced that we have the right mixture of grants and of low-interest loans. Clearly to some of these businesses, the low-interest loan is just going to submerge them, and they are going to drown. What they need to get them through this period is a grant.

Do you need something from us, or can your policies direct additional monies to grants, because many of these people, giving them another loan is not going to be helpful at all to them. They are just going to go bankrupt sooner rather than later doing that. They need a grant to get them over this.

Mr. BARRETO. Thank you for the question, Congressman, and I agree with you that just loans themselves will not solve every situation, and there are many different small businesses with different types of needs.

We are working very closely with all of our district directors. We have a lot of district directors that respond to rural areas to reach out to those areas, and in the cases where an economic injury disaster loan to one of those rural small businesses would make sense, we try to afford them every opportunity to do that. Sometimes they will access it themselves from the Internet.

As you probably know, the SBA is not authorized to do grants. That has not been something that we have typically done, and I know that there are a lot of different ideas and legislation out there. What we are trying to do now before any changes are made to our existing programs is to educate people where those grant programs are.

In New York where we work very closely with the Congresswoman, we have had the opportunity to identify some grant programs that have been very helpful to the small businesses out there. So wherever we can, we try to refer out to some of the grant

programs that are available. We do not have the ability at this present time to provide grants.

Mr. BARTLETT. Do the other agencies you work with have sufficient grant money that working together you can meet these needs? I am gathering that that is not true, that there is just not sufficient grant money out there.

Mr. BARRETO. Well, there are some grant programs in different agencies. As you probably are aware, HUD was recently granted a grant program that they are going to make available through community block grants. But there are some other agencies that have grant programs. I am not familiar with all of them, but to the best of our ability, we try to refer and work together with our counterparts in the other agencies to provide whatever relief is available to those small businesses.

Mr. BARTLETT. I know for our farmers, low-interest loans were not the solution. The banks were happy to lend them money, and the interest rate wasn't much different. And several of the witnesses here today indicate the costs of some of the SBA loans which makes them as costly as loans in the private sector.

And I suspect that many of the small businesses in New York are very much in the same position that our farmers were, that additional loans are not what they need to get them through this. They need grants, and somehow through all of the agencies that are involved here, we need to make enough grant money available to get them—after all, a small business is worth saving. When we come out of a recession, it is going to be true of this one as it was the last one, most of the new jobs are going to be created by small business. This is an investment. It is not just spending by our taxpayers. This is an investment that will pay off.

Thank you, Mr. Chairman.

Chairman MANZULLO. We are going to go vote for one vote, then we are going to come back.

Okay. Who is next? Who was here first? You have no questions? Oh, Ms. McDonald.

Ms. MILLENDER-MCDONALD. Thank you, Mr. Chairman, and thanks to all of you who are here today. We have heard from many of you. Thanks to my friend, Congressman Nadler, who suggested that I talk with a lot of you, and I have done that. I would like to also welcome personally our native son to his post here. And quickly, I would like to say a couple of things.

One is I am concerned about your outreach, because as I look at the—your statement, Mr. Barreto, you have sent out 26,000 applications. You have received 6,000. You have sent out—that is under the New York disaster. Then the expanded EIDL, when you sent out 13,000, you received 1. Virginia Tech, 523; you have received 118.

Something is wrong with some outreach here. It seems to me that you need to do something to help get the word out that you have whatever you have for these small business people. When you see that Lower Manhattan has lost 100,000 jobs, then it says to us we are not trying to pick up this economy, because we know that the small businesses are the engines that drive the economy, and if you are going to lose these types of jobs, you are not going to ever

have an economy that is going to return back. So we need to look at what will make that happen.

I agree with Mr. Bartlett that we need grants instead of loans. These small business folks need grants, not loans, and if you are indeed not—it is not unusual for—it is unusual for you to give grants. These are unusual circumstances. So we need to see what we can do under the cloak of SBA to get those grants to these small business folks. They don't want to put up their homes. This is all they have left, for heaven's sake, so why should they have to do this? Why should they have to pay fees for balances, as I heard the young woman say, on existing balances of loans? These are impediments to trying to help these small business people, and I tell you, as Ranking Member here, I want to see what we can do to work things out for those folks, many of whom are women who are leading the charge on increasing businesses.

I want to ask you also, the $1.8 billion through the HUD community block grant, is this additional funding, because cities—as a former mayor of the city, I do know that CBDG grants are needed very much in city governments, and we need to know whether that is additional money and not pulling from the cities.

And lastly, let us see what I have here. I think I have said it all so quickly. But when we talk about time elements over a month for this young woman, Ms. Yan, to get a loan, which was fewer—fewer than what she wanted, I am concerned about your high-tech. Don't we have some kind of high-tech, that you can do something more expedient than have a month that you wait for someone to even be told that they are not getting the amount of the loan that they have—or they requested?

These are things that we must look at, my friend, and we have got to do this. We have got to kick up this economy, and it must be through SBA. So these are unusual times. We must do unusual things.

Thank you, Mr. Chairman.

Mr. BARRETO. Thank you very much, Congresswoman. And I appreciate the question, and I want to make sure I respond quickly and comprehensively.

With regards to the applications that we have sent out, we have also noticed that the response rate coming back has not been high. We have reached out to them, sometimes called them one, two, three times. We have done a lot of training also with all of our partners, SBDC's and SCORE to make sure that they are also available in this outreach. We have taken unprecedented moves to do outreach, and anything that we can do above that to get some of those folks to apply for the loan, we would love to do that.

Ms. MILLENDER-MCDONALD. Churches, synagogues, mosques——

Mr. BARRETO. Absolutely. Sometimes we have found out that they have gotten help, maybe from another program, a grant program. They have found other types of financing. But I agree with that.

With regards to the HUD grants, those are new monies, it is my understanding. I am not familiar with all of the specifics around it, but we would be happy to follow up.

The response time right now on the approval loans is averaging 10 days. That is an all-time quick-time period for us. I mean, it

went from 40 days, and some periods it was averaging 25 in previous. It is down to 10 days from the time that we receive an application, and if we can get it down lower than that, we will.

Ms. MILLENDER-MCDONALD. I would like to see it gotten down lower than that.

Chairman MANZULLO. Mr. Nadler, did you have a quick question or comment?

Mr. NADLER. I have a quick comment. I was going to ask questions, but I would rather comment on the questions by Ms. Millender-McDonald and the answer. Two things.

One of the—probably the main reason the response rate is very low is because the product of the SBA is not suitable for many of the small businesses. They are reaching out. Maybe they are not doing as good a job as they should. Maybe they are. But someone gets the information, and he sees he can get a loan at 3 percent, 4 percent if he puts up his house as collateral. He says, that is nice, but I am not going to do that. It can't help me, I need a $400,000 grant because my business was shut for 6 weeks until the police let people come to my business, and now it is only down 80 percent. I am starting to build it up. It is only down—but it is 20 percent—I have got to look at this presumably until they put out the fires, and how am I going to survive for another 6 months. I need a grant, not a loan.

So if your product of what you are offering to help people isn't suitable for them, and what we are saying is it is by and large, because this is such an extraordinarily and different kind of situation, the SBA product, to a very large extent, is simply not helpful, number one.

Number two, the CDBG, the community development block grants that you asked about, $1.8 billion was added to the original $700 million's total of $2½ billion. That, first of all, goes to the Governor. It is statewide. It can be used for a lot of things besides small business grants. We at this point don't know, one, how fast it will come through; two, how much of it will go to southern Manhattan as opposed to the rest of the State; three, how much of it will be used for small business grants as opposed to the million other things, as you have said.

As a mayor—as former mayor, you know what other things can be done. And that is why in the Small Business Claims Act that Senator Clinton and I introduced, we make available half-a-million-dollar grants to small businesses who have suffered business interruption losses or physical damage directly and as much as is needed, directly drawing down for FEMA with the cooperation of the SBA——

Chairman MANZULLO. I am going to have to interrupt. There is a motion to recommit that is on the floor. We are going to have to end this. I want to thank all of the witnesses for your generosity. Mr. Barreto——

Mr. BARRETO. Thank you, Mr. Chairman.

Chairman MANZULLO [continuing]. You came under a lot of fire today. You did extremely well. We know where your heart is.

Ms. VELÁZQUEZ. Excuse me. Are we coming back?

Chairman MANZULLO. Right. The helicopters are taken care of. Are you going to be around town next week?

Mr. BARRETO. Actually, Chairman, I am out of town next week, back the week after, but we will make accommodations and have somebody meet with you that has decision-making authority.

Chairman MANZULLO. Appreciate that. Thank you so much.

Mr. BARRETO. Thank you very much.

[Whereupon, at 3:51 p.m., the committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
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OPENING STATEMENT
CHAIRMAN DONALD A. MANZULLO
COMMITTEE ON SMALL BUSINESS

Good morning and a special welcome to those who have come some distance to participate and to attend this hearing.

In the aftermath of the terrorist attacks of September 11th, this Committee held a hearing on October 10th regarding SBA's efforts to respond to the property damage and economic injury caused by these tragic attacks. We are here again to make sure that the needs of small businesses are met.

Many individuals lost friends and relatives, their homes and businesses in New York City as a result of the attacks on the World Trade Center, and many others have suffered enormous economic loss, though not located in the declared disaster sites.

Right here in the Washington, D. C. area, the attack upon the Pentagon and the subsequent closure of Reagan National Airport caused economic loss to a number of small businesses.

It has been 90 days since these cowardly attacks. The Committee needs to determine whether Federal programs presently in place are meeting the needs of small businesses.

Are the Federal programs providing the assistance to small businesses that Congress intended or are there a large numbers of small businesses that are without help?

Since September 11th the Small Business Administration has issued regulations expanding the scope of the Disaster Loan Program beyond the geographical areas that were the targets of the terrorist attacks. Though the Small Business Administration has reported making over $195 million in disaster loans, many small businesses have complained that their applications were denied, that disbursement of the loan funds have not taken place or are delayed, or that the Disaster Loan Program is not applicable to the particular situation.

Plus, there is a credit crisis facing small businesses, as confirmed by the Federal Reserve report of last month. What is the SBA doing to make more credit available through its regular loan programs to small businesses?

Assistance is needed now. Delay will only hamper the recovery of the businesses impacted by the events of September 11th. And we will not let the terrorists win – under any circumstances.

It is important that the Members of this Committee hear how responsive the Federal Government has been to small businesses. We need to know what works and what doesn't work.

Again, thank you for your participation in this hearing. I now yield to the Ranking Member, Ms. Velaquez for her opening statement.

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RANKING DEMOCRATIC MEMBER

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STATEMENT
of the
Honorable Nydia M. Velázquez
Ranking Democratic Member
House Small Business Committee
Hearing on "90 Days after Sept. 11"
December 6, 2001

Thank you, Mr. Chairman.

Three months after the second Tuesday in September, we are still learning the true scope of the effects of terrorism on our nation. Rescue crews are still sorting through rubble, workers worry about their jobs, and small businesses face challenges in a slowing economy.

The New York City Partnership estimates that small businesses will lose $101 million in capital losses and may shed 55,000 jobs in the next year.

No place has been more impacted than Chinatown, in my district, where small businesses are the cornerstone of the community. Firms there are seeing 30-70 percent drops in revenue. More than half of all garment workers in Chinatown have lost their jobs. Most factories are operating at less than half their capacity.

This disaster is larger than anything we have ever seen before. The Northridge Earthquake and Hurricane Andrew were our largest before this year. September 11th dwarfs them many times over.

I would like to commend the Small Business Administration for its rapid and effective response. Within days of the attacks, SBA was on the ground in New York with workers to assess damage and to begin to administer disaster recovery services.

SBA has directly assisted 26,356 individuals and businesses with loan applications and other inquiries in New York City. It has processed 6,131 disaster loan applications and approved 1,966 disaster loans totaling $156,596,000. Closing documents have been completed on 1,825 loans, and 965 disbursements have been issued for $33,492,000. This is a strong response and shows our commitment to recovery.

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I particularly want to thank the Small Business Administrator, Hector Barreto, for being here, and to commend him for his strong leadership during these difficult months. He has returned again and again to New York, taking a personal interest in the recovery efforts.

At my request, SBA has responded to the unique challenges Chinatown faces by opening a disaster recovery workshop on Mott Street. Mr. Barreto has joined me on two visits to address community concerns and to award the first disaster recovery checks to struggling small businesses. I appreciate his commitment and compassion.

Today's hearing is an appropriate moment to look back and learn from our experience. No one can fault the effort of anyone who responded to this crisis. But clearly we can always strive to do more and better.

What the SBA needs are new tools for their disaster program to cope with this catastrophe and those that may follow. The American Small Business Emergency Relief and Recovery Act includes some of these new tools --- including disaster recovery grants, low- and no-cost loans, and debt forgiveness if bankruptcy threatens a company.

Mr. Chairman, it is outrageous that the House leadership has not brought this innovative and necessary package to the Floor for a final vote.

We need to enact this legislation soon --- and with the grant provisions intact. Without grants, we will have a bill that does nothing for small business. I cannot stress this enough.

The leadership has expressed concern that our bill costs too much. But I think that the true cost will be if we DON'T enact this bill. Small businesses will fail, workers will lose their jobs, and neighborhoods and families will suffer. By comparison, our bill is a bargain.

Nothing in the stimulus bill is reserved for small business. If we can do something for the airlines and the insurance industry, we can take our bill to the Floor and pass it into law.

In closing, I'd like to thank Mr. Barreto again for his hard work and cooperation. My thanks, as well, to the representatives of small business for taking your to be here and sharing your experience and knowledge. Lastly, I am happy to welcome my colleagues, Congressman Nadler and Congressman Moran, here to provide their perspective.

I am sure that working together we can get the job done.

Thank you very much.

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Congress of the United States
House of Representatives

Congressman Mike Ross
Statement at the House Committee on Small Business
90 days after September 11th – how are small businesses being helped?
Thursday, December 6, 2001, 2:00 p.m.

I appreciate the Chairman and the Ranking Member for convening today's hearing, which will explore the effectiveness and efficiency of the Small Business Administration's response to the needs of the small business community after the September 11 terrorist attacks.

Almost immediately after the terrorist attacks, the crushing impact on small businesses was felt. In my own state of Arkansas, and my district (Fourth Congressional District) more specifically, numerous small business owners contacted me about getting immediate assistance. I received faxes, e-mails, and telephone calls from travel agents, aircraft servicers, and aerial applicators, which are more commonly called crop dusters. I am pleased that in early October the SBA expanded the scope of its Economic Injury Disaster Loan program to include those businesses outside the "declared disaster areas" in New York, Virginia and Pennsylvania.

I am concerned, though, about abnormally high rates of rejection for these 100 percent government guaranteed loans. During the Thanksgiving recess, I learned that Arkansas' crop dusters would not qualify for the EIDL program, even though they were grounded because of federal actions and during a critical time in the planting season. After working with the SBA's Disaster Area III Director Ray Chatham and the SBA's Region VI Office of Advocacy, staffed by Regional Advocate Jim Johnson and Till Phillips, the crop dusters will now qualify for the EIDL program.

While the situation was resolved, the problems should not have happened. The regional offices and the Office of Advocacy are small businesses' bridge to implementing federal policy in the real world of business. The SBA's regional directors and loan officers should have the flexibility to make decisions based on real-life. Policy is important but when you have people hurting financially policy doesn't pay the bills. Ray Chatham, Jim Johnson and Till Phillips understand that goal, and I commend them for helping my constituents.

Here in the Congress we need to give the SBA the opportunity to help small businesses during this unique economic time. We need to push through H.R. 3230, *The American Small Business Emergency Relief Act,* to revive the prospects for America's small business owners. The small business owners in my district are asking for that bill to become law.

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Congress of the United States
House of Representatives
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STATEMENT OF REPRESENTATIVE JERROLD NADLER AT THE SMALL BUSINESS COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S RESPONSE IN THE AFTERMATH OF SEPTEMBER 11th TERRORIST ATTACK DECEMBER 6, 2001

I would like to thank the distinguished Chairman, Mr. Manzullo and the Ranking Member, Ms. Velázquez, my distinguished colleague from New York, for responding to my request to hold this hearing and for the opportunity to participate today. I would also like to extend my gratitude to Don Lee, John Calder, and Michael Kramer, who are the small business owners from my district here today to testify about the challenges they face in New York's post-September 11th economy.

Mr. Chairman, the events of September 11th rocked the nation and left my district in shambles. The tragedy of that day reshaped our priorities, altered our perception of safety, and changed the way we approach every day tasks like opening the mail. Even so, the President has urged us not to be defeated and return to "business as usual." Mr. Chairman, there are 14,000 small businesses in Lower Manhattan that wish it was only that easy.

When the first plane hit the World Trade Center, it set off a devastating chain reaction that put the livelihood of small business owners in jeopardy. The collapse of the towers, the damage to nearby subway tunnels, the fallen power and phone lines, the restricted access to the area, and the haunting stench of still-burning wreckage have all led to a loss of client base, to serious property damage, and to a tremendous loss in profits. With so many obstacles to overcome, it's a wonder that any small businesses have managed to survive.

But maybe "survive" is not the correct word. Their doors may have reopened, but are they really surviving? Small businesses in Lower Manhattan will lose an estimated $5 billion in sales in the last quarter of 2001 alone. Many have seen their sales decline by up to 80% because of disruption and damage to the area. 1,000 businesses have been destroyed or severely damaged

and are losing thousands of dollars each day that they are unable to reopen. Another 10,000 businesses in Lower Manhattan are at risk of failure as a direct result of the attack. Despite being on the verge of shutting down, most of these businesses have been unable to access financial help from the Small Business Administration (SBA).

Mark Panahbarhagh, who owns the Milano restaurant in my district, has managed to reopen. But, he lost 45 days of business in the aftermath of the attacks, and his sales are down 70%. Many of his loyal customers have relocated uptown or to New Jersey, and many more, he believes, are driven away because of the air quality in the neighborhood. In the midst of all of this, Mr. Panabarhagh received an eviction notice from his landlord because he cannot afford to make his full rent payments, given everything that has transpired.

He applied for an SBA loan, but was denied because he has no collateral. And how could he? Like thousands of others, his business has been devastated by the terrorist attacks. In lieu of business assets, the SBA has requested that applicants put up their homes as collateral. This is not a viable option. These businesses are on the line, and the owners should not have to risk losing their homes as well.

Until Lower Manhattan is rebuilt, Mr. Panabarhagh's business will suffer. That's why we must find some form of assistance, through grants and guaranteed loans, to help him, and the thousands of others, through this transition. The SBA must understand that these are extraordinary circumstances and special measures must be taken. The fact that of the thousands of businesses in Lower Manhattan applying for loans since September 11th, only 359 have been approved is stark testimony to how badly the system is failing our small businesses. The SBA must change its attitude and regulations quickly. And the SBA needs additional authority. I ask that this Committee explore how to grant it.

Since September 11th, several laws have been enacted to help various sectors of our society deal with the extraordinary circumstances we are facing. Law enforcement has been given broader authority, airlines have been given financial aid, and FEMA was given added resources. In light of this, it strikes me as curious that in his October 10th testimony before this Committee, Mr. Barreto of the Small Business Administration testified that the SBA needed no new tools to assist the small business community in recovering from its biggest blow in history. I hope that during the course of this hearing, Mr. Barreto will come to understand why he desperately needs additional resources and authority, if thousands of small businesses in my district are not to hung out to dry.

I hope that today's discussions will lead to concrete strategies to revitalize New York's small business community. This Committee has already taken a step toward that end by reporting H.R. 3230, The American Small Business Emergency Relief and Recovery Act. This legislation would jump-start many businesses by expanding the number of businesses eligible for assistance, raising SBA loan amounts, and forgiving the interest on these loans for two years. I also encourage the Committee to support H.R. 3272, The World Trade Center Claims Act, which I introduced in November. This bill would provide small businesses with direct relief for

property damage, business interruption loss, debris removal, and clean up costs. Although administered by FEMA, it would require the cooperation of the Small Business Administration. These types of immediate assistance are what the small businesses desperately need, as the gentlemen from my district will attest today.

As I sit here next to my fellow New Yorkers, I am reminded of the countless statements I have heard from small business owners of their willingness -- indeed eagerness -- to put everything on the line by reopening their businesses, if they can obtain some financial help. They are willing to risk so much because they know what we know: New York's economy cannot be rebuilt without the help of small businesses. These people were fortunate enough to escape safely from the terrorist attacks, but their livelihoods, their dreams, are at risk of dying in the aftermath.

Thank you again for holding this hearing and for inviting me to participate. I look forward to the testimony today and to working with this Committee to address the needs of small businesses across the country as we recover from the terrorist attacks of September 11th.

U.S. REPRESENTATIVE

JERROLD NADLER

NEWS RELEASE

From New York's 8th Congressional District

Dec 6, 2001
FOR IMMEDIATE RELEASE

CONTACT: Eric Schmeitzer
202-225-5635

REP. NADLER TELLS SMALL BUSINESS COMMITTEE OF UNMET NEEDS IN NYC

WASHINGTON -- Continuing in the effort to get the needs of small businesses affected by September 11th met by Congress, Rep. Jerrold Nadler (D-NY) today testified about the matter in front of the House Small Business Committee. In addition, Rep. Nadler hosted three local small business owners, who also testified in front of the committee. The hearings were held at the request of Rep. Nadler.

Last month, Rep. Nadler brought over forty small business owners from downtown Manhattan to Washington, to brief Members of Congress on their current struggles to recoup.

A copy of Rep. Nadler's testimony is below:

"I would like to thank the distinguished Chairman, Mr. Manzullo and the Ranking Member, Ms. Velázquez, my distinguished colleague from New York, for responding to my request to hold this hearing and for the opportunity to participate today. I would also like to extend my gratitude to Don Lee, John Calder, and Michael Kramer, who are the small business owners from my district here today to testify about the challenges they face in New York's post-September 11th economy.

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(MORE)

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(MORE)

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House Committee on Small Business

"90 DAYS AFTER SEPTEMBER 11TH: HOW ARE SMALL BUSINESSES BEING HELPED?"

December 4, 2001

Prepared Remarks of James Moran

US House of Representatives

Thank you Chairman Manzullo and Congresswoman Velasquez for giving me this opportunity to address your committee. I appreciate all of the hard work the two of you have done to help American small businesses since September 11th, and I look forward to working with the two of you in the future in pursuit of this goal.

We all know that in the aftermath of the September 11th terrorist disasters, small businesses around the country are struggling to make ends meet. A good example of this is the Virginia Beverage company, a business located in National Airport (with another facility in Old Town), that is owned by Melton Mcguire. When National Airport was closed for three weeks, Mr. McGuire suffered untold damages, but the worst was yet to come. When the airport reopened with only 18 of the 102 flights in his area of the airport operating, Mr. Melton found himself in the unenviable position of not being able to meet his overhead - he made $1000 during the first week of operation but his operating costs were $2400.

And it is not just those who were at ground zero in New York City or the businesses located in National Airport who have been adversely affected - Right now small businesses all over America, are realizing that it does not matter where they are located, they are suffering all the same.

The latest data show that the unemployment rate has risen to 5.4% when in September it was only 4.9%. This means that approximately 700,000 Americans have lost their jobs since September 11th because of the tremendous fall out businesses have suffered because of the terrorist attacks.

Chairman Manzullo, Congressman Nadler, and I, together with our colleagues in the Senate, Chairman Kerry and Senator Bond, recognized this problem for what it was and worked together with the small business community to create legislation which would help to alleviate this desperate situation. On November 6, 2001, we introduced H.R. 3230, the American Small Business and Emergency Relief Act of 2001. Its counterpart in the Senate, S. 1499, has garnered 60 cosponsors so far and is expected to be enacted in the Senate by next week.

H.R. 3230 is targeted to assist our nation's small business owners who

are struggling in the aftermath of the attack by strengthening and expanding access to the Small Business Administration's loans and management counseling in order to help with payments on existing debts, financing for businesses, as well as the maintenance and creation of jobs. It also addresses the shrinking availability of credit and venture capital to small businesses through traditional lenders and investors which has become virtually non-existent since the attacks, and includes provisions to aid our Federal contractors who are facing increased costs when trying to access Federal facilities to work on existing contracts. This is a good bill which has broad bipartisan support. It was drafted with the help of SBA's lending and counseling partners, small business organizations, and trade associations.

It is my understanding that the administration has several concerns with the bill. I would have hoped the concerns would have been conveyed to Congress earlier than the letter Mr. Barreto sent Chairman Kerry on Friday, November 30, 2001. In this letter Mr. Barreto agrees with us in saying that it is important to take steps to respond to the widespread economic injury to small businesses resulting from the terrorist attacks. However, from there we part ways because he goes on to say that permitting refinancing of existing debt, deferring principal payments, and waiving interest for two years for those businesses who qualify because of September 11th is a bad thing.

Later in the letter he questions whether or not it is necessary to temporarily provide assistance to Federal contractors who were locked out of their jobs in the wake of September 11th for obvious security reasons . I have letters from the Associated General Contractors of America, the Hubzone Council, and the American Subcontractors Association, Inc. that say it is necessary.

I do appreciate all of the work Mr. Barreto has done to help small businesses across the country since September 11th. However, as the financial damage that has been done to this country becomes more evident with time, I believe that more can be done, and should be done to help. H.R. 3230, the American Small Business Emergency Relief Act, provides the SBA with the tools they need to help small businesses return to normal and I look forward to working with Mr. Barreto on this measure because we must not forget that American businesses are depending on us to do so.

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U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

Testimony of Hector Barreto
Administrator, U.S. Small Business Administration

Before

Committee on Small Business
U.S. House of Representatives
December 6, 2001

U.S. Small Business Administration's Role in Disaster Assistance

Federal Recycling Program Printed on Recycled Paper

TESTIMONY OF HECTOR BARRETO
U. S. SMALL BUSINESS ADMINISTRATIONS
ROLE IN DISASTER ASSISTANCE

HOUSE SMALL BUSINESS COMMITTEE
December 6, 2001 2:00 PM

Mr. Chairman, Ranking Member, and distinguished members, thank you for inviting me to testify about the U. S. Small Business Administration's (SBA) disaster assistance to the victims of the September 11th events.

First, I think it might be helpful to review the SBA's disaster's programs and responsibilities to put in perspective our response to this disaster.

SBA's Disaster Programs

With any disaster that occurs in the United States, the SBA plays a major role in providing disaster assistance loans to people for their businesses, homes, and personal property. SBA disaster loans are the primary form of federal assistance for non-farm, private sector losses that are not fully covered by insurance or other recoveries. SBA disaster loans provide working capital for businesses and help fund rebuilding for homeowners, renters, and businesses of all sizes and private non-profit organizations (PNP).

When disaster victims borrow to repair uninsured (or underinsured) damages, the low-interest rates and long-terms available from SBA make recovery affordable. SBA disaster loans are tailored to each borrower's ability to repay. These loans are repaid to the Treasury, thus reducing Federal disaster costs compared to other forms of assistance such as grants. Providing disaster assistance in the form of loans rather than grants avoids creating an incentive for property owners to be underinsured against risk or to expect a Federal "bailout." Grants completely transfer risks covered to society and may or may not be well supported depending on the nature and severity of the disaster. Grants

issued to businesses to cover disaster-related losses require a great deal of considerations related to equity and resource allocations.

We make real and personal property loans, physical disaster business loans, and economic injury disaster loans. Our real and personal property loans and physical disaster business loans are intended to assist people with their actual loss of property as a result of a disaster. The economic injury disaster loans are available to provide small businesses working capital to help pay ordinary and necessary operating expenses that they would have been able to pay absent the disaster.

SBA makes every effort to approve each application. SBA incurs risks private lenders cannot take, and apply more lenient credit standards than private lenders. Nevertheless, SBA must adhere to fundamental credit standards and find a reasonable prospect that each loan can be repaid. To do otherwise would increase its losses and the cost of the program. SBA believes strongly that it is not in the best interest of either disaster victims or the SBA to make a loan that will ultimately result in the loss of the victim's home or business.

Federal law requires SBA to determine whether each applicant has *credit available elsewhere* in an amount needed to accomplish full disaster recovery from non-government sources. Applicants determined to have *credit available elsewhere* are not eligible for loans at the subsidized interest rate (maximum of 4%) and for Economic Injury Disaster Loan (EIDL) assistance.

SBA is primarily a cash-flow lender (not a collateral or asset based lender), in that its primary emphasis is on the applicant's ability to repay the loan and its satisfactory credit history. The cash flow to support the requested loan is derived from the information contained in the applicant's Federal Tax Returns (FTR) and other financial information provided.

SBA does not require a specific debt to equity ratio when approving a loan; instead we require the "best available collateral". However, SBA will not decline a disaster loan because the collateral is not sufficient to fully secure the debt as long as the borrower is willing to pledge that which is available. SBA will not lend funds in cases where applicants would be forced to liquidate collateral to make their disaster loan payments.

SBA requires those physical loans over $10,000 and economic injury loans over $5,000 be secured to the extent possible (unsecured lending limit established by law and regulation). Generally, SBA considers real estate the "best available collateral". If the equity in the real estate is insufficient to fully secure the loan, then SBA may also secure the loan with such things as the business' machinery and equipment, inventory, leasehold improvements, etc.

SBA does not target its loan applicants in the traditional sense. SBA offers the same loan program utilizing the same underwriting criteria to disaster victims in every State and all of the U.S. territories. Therefore, the amount of underwriting required to meet our regulatory requirement of determining reasonable assurance of repayment, satisfactory credit, and satisfactory character may be greater in some instances than in the private sector. For example, some lenders may have a streamlined process using credit scores and/ or equity in real property for loans of a small dollar amount or where the lender has an existing relationship with the applicant. We do not approve business loans based on credit scoring or equity in real property.

Additionally, SBA does not price loans to reflect the level of risk. We will approve a loan with A+ credit on the same terms and conditions as we would with C- credit. We may also decline A+ credit because they do not show sufficient cash flow to repay a loan or they do not meet one of the legal and regulatory restrictions to eligibility (i.e. delinquent child support, Federal liens, defaulted Federal debt, failure to file FTRs as required, etc.). (See appendix for information on credit scores.)

Under the disaster loan program, all applicants are given a fair and equal opportunity for assistance. SBA verifies the actual physical damage and calculates the amount of funds necessary to return the property back to its pre-disaster condition. SBA also calculates the amount of economic injury that the applicant has suffered, or is likely to suffer, as a direct result of the declared disaster. Once the physical losses and economic injury are calculated (i.e., the amount of eligible losses) we determine whether the applicant has satisfactory credit and that there are no legal or regulatory restrictions as to eligibility, then repayment ability is assessed. In many cases, even if there is a regulatory or legal impediment, the SBA works with the small business to overcome that problem. If after normal operating expenses, fixed obligations, and living expenses have been covered, the applicant has sufficient cash flow to support the debt necessary to overcome the impact of the disaster a loan can be approved. A fixed rate low-interest long-term loan is then tailored to the applicant's ability to repay. The average term of a business loan is approximately 14 years, for loans approved beginning FY 1980 – FY 2001.

SBA disaster business loans are available up to $1.5 million for uncompensated losses for any business, including its affiliates. Most disaster loans have an interest rate of 4% and may have a term up to 30 years. For businesses determined to have *credit available elsewhere* to repair or replace their disaster damaged property, the interest rate is generally 8% and the term is limited to 3 years by law.

EIDL assistance provides the small business with working capital to meet its ordinary and necessary operating expenses that it could have met, but was unable to meet because of the declared disaster. These loans are intended only to provide the amount of working capital needed by a business to pay its necessary obligations until operations return to normal after a disaster event. The loan does not cover lost income or lost profits. EIDL funds are limited purpose working capital loans and cannot be used to take the place of regular commercial debt, to refinance long-term debt, expand the business, or purchase new equipment.

To mitigate against the continued reliance upon Federal disaster loan assistance, all disaster loan borrowers are required to purchase and maintain appropriate insurance (hazard and flood) on the collateral for the life of the loans. Failure to maintain the required insurance disqualifies the borrower from eligibility for additional disaster assistance. Therefore, property owners cannot qualify for "endless" Federal disaster loan assistance on the same property.

The primary cost of SBA's disaster loan program to the taxpayers is the interest rate subsidy. The subsidy rate is an estimate of the net cost to taxpayers over the lifetime of all loans approved in a certain fiscal year (FY). For example, our subsidy rate for FY 2002 is 14.67% which means that each $1,000 in disaster loans made is calculated to cost the government (i.e., taxpayer) $146.70. (The subsidy rate does not include the costs to administer the program that is funded separately.) For the New York City disaster declaration, most loans to businesses are at 4%. Since the Credit Reform Act became effective in FY 1992, the Disaster Loan Program's subsidy rates are as follows:

Year	Subsidy Rate
2002	14.67%
2001	17.46%
2000	22.20%
1999	22.36%
1998	23.46%
1997	20.02%
1996	28.08%
1995	31.54%
1994	22.99%
1993	20.58%
1992	33.93%

* Some figures are estimates or re-estimates

SBA approves an average of approximately $1 billion in disaster loans annually (with the exception of FY 1994 where it approved almost $4.2 billion mostly as a result of the Northridge earthquake. It would not be unrealistic to assume that the amount of grant funds required would be almost double this amount since the agency's decline and withdrawal rates average approximately 50 percent. Thus, use of grants could potentially present a large fiscal impact.

Examples of loan approvals by disaster include the following.

Disaster Event	Year	Number of Approved Loans	Dollar Amount of Approved Loans
Hurricane Hugo	1989	27,168	$ 491,000,000
Loma Prieta Earthquake	1989	15,473	$ 584,000,000
Hurricane Andrew	1992	25,992	$ 696,000,000
Midwest Floods	1993	19,993	$ 626,000,000
Northridge Earthquake	1994	124,262	$4,053,000,000
Hurricane Floyd	1999	19,637	$ 675,000,000
NYC – World Trade Center	2001	1,699	$ 138,175,400
NYC Business only		1,517	$ 135,869,400

NYC-WTC figures as of November 25, 2001

SBA assists an important segment of the population, those suffering from a disaster. Our programs provide the needed financial assistance at reasonable rates. We also do it in a fiscally responsible manner, balancing an applicant's need with reasonable assurance of repayment.

SBA's Response to NYC & VA Attacks

The afternoon of September 11th our Niagara Falls, New York Disaster Area Office was on the scene with FEMA and the state emergency management officials in New York to begin coordinating our response with the overall federal recovery effort. Working with Governor Pataki's office, we set up an office in the State's Business Resource Center in Manhattan to meet with disaster victims to discuss SBA programs, issue loan applications, and provide assistance on how to complete the applications.

SBA has staff assisting disaster victims at eight locations. We have deployed approximately 86 people in the New York City area and an additional 191 people at the Niagara Falls Disaster Office, that are rotating in when needed. We also have several of our disaster loan experts from offices around the country temporarily assigned to New York to provide additional support to the area.

We have been and are focusing on getting information to the individuals and businesses that have been affected. We have contacted all the elected officials in the New York City area to provide them with information about the SBA's programs by phone, e-mail, and regular mail. Our staff has been canvassing neighborhoods to talk to the small business owners suffering from this tragedy in order to inform them of SBA assistance. I joined our SBA personnel in New York and saw first hand the empty restaurants and stores that normally would have been packed prior to the events of September 11th. While in New York City, I met with a small business owner, who told me that the terrorists tried to declare a victory by destroying the World Trade Center buildings, but he insisted they would not score a second victory by closing his business. This is the patriotism and the true American entrepreneurial spirit that I have seen in New York and across the country. This is why America will recover and succeed.

To complement these existing loan programs, the SBA through its Disaster Area Office in New York is working with New York State's Empire State Development Agency and several private financial institutions to provide "Bridge Loan" and "Gap

Loan" financing for the business community in New York City. "Bridge Loans" are temporary financing loans that may eventually be replaced by SBA loans, and "Gap Loans" are financing to disaster victims who are unable to qualify for SBA loans due to ineligibility or other program limitations.

Recognizing the economic impact that this attack has had on New York and the country in general, we expanded our Economic Injury Disaster Loan program to include small businesses across the country that were directly affected by the terrorist attack on the World Trade Center, the Pentagon or that were affected by the result of a federal action related to those attacks. Additionally, Economic Injury Disaster loans are available to businesses that may suffer an impact as a result of key employees being called up as reservists to serve in our military.

As of Tuesday, December 4th, in the **New York Disaster** area we:

- Sent out over 26,000 applications;
- Received 6,190 applications;
- Approved 2,003 loans approved for over $160 million with an average size loan of approximately $80,020.

In the **Expanded EIDL** effort, we:

- Sent out 13,062 applications
- Received 1,359 applications
- Approved 226 applications for over $18 million with an average size loan of approximately $81,168.

In the **Virginia attack on the Pentagon** we:

- Sent out 523 applications
- Received 119 applications
- Approved 46 applications for over $6 million with an average size loan of approximately $130,434.

In the **Military Reservist Economic Injury Loan Program**, we:

- Sent out 53 applications
- Received 10 applications

- Approved 2 applications for $30 thousand with an average size loan of approximately $15,000.

The New York City WTC disaster differs significantly from other disasters by its very nature. Typically, in disasters caused by a sudden physical event like earthquakes, storms, etc., approximately 80 percent of the disaster victims are homeowners and 20 percent are businessowners. In the WTC disaster, the composition ratio between home and business disaster loan applications is substantially reversed because the physical damage is unusually localized and the economic impact is much more widespread. Moreover, disaster victims with physical damage have an urgent, tangible need for assistance in a known quantity (physical damage repair costs), while business disaster victims suffering Economic Injury are, in many cases, still assessing their chances to survive without having to borrow, or are still assessing the extent of their business' economic injury and have not yet filed. Frankly, it is not unusual for businesses to be in the economic damage assessment mode at this point in the disaster, which is why we have a 60 day application filing period for physical declarations and a nine month filing period for economic injury declarations.

The overall approval rate reflects the lack of significant home loan volume. Home loans involve fewer considerations, are based on more concrete parameters and fewer variables. On the other hand, business Economic Injury loans require more analysis and have more eligibility thresholds such as type of business activity, size, affiliations, character issues of multiple principals, etc. Accordingly, each threshold has the potential of thinning the number of approvals.

Generally, when a disaster occurs the impacted businesses are located within the declared disaster area. The September 11th attacks and subsequent closure of airports around the country impacted small businesses well beyond the declared disaster areas of the WTC and Pentagon. The September 11th attacks present a unique situation in regards to the scope of the Administration's response since the effects are far-reaching beyond the immediate physical area of the disaster.

We must be careful and seek the most effective and efficient solutions, including economic solutions, when considering how the Administration should form its response to the events of September 11th.

The SBA's programs have evolved over the years to meet the needs of disaster victims and small businesses. The delivery of services and its mechanisms are already in place to handle these needs and are well tested. It would be most efficient to use existing programs and resources to assist the small business community. These existing services along with an economic stimulus package, such as the one that the Administration proposed, that cuts taxes and provides assistance to the businesses that need it the most, along with the spirit and determination of American business owners, will get our country back on track.

I look forward to working with all of you on looking at ways to help our friends in New York, Washington, D.C., and those around our country that refuse to let terror destroy what they have worked so hard to build. Thank you.

Appendix1: State and Local Grant Programs

SBA's experience with grant programs is limited; however, over the past several years there were instances where either the State or local government offered grants to businesses. The following includes a brief description of the grant programs that were offered to businesses.

Oklahoma City Bombing, OK (1995)

In this disaster Housing and Urban Development (HUD) provided funds to the City to compensate downtown businesses damaged by the bombing. The program was implemented several months after the disaster event and we had already processed the loan requests of businesses that applied for disaster loan assistance. A condition of the grant was that the business agreed to remain in the downtown OKC area. These grant funds were treated as a duplication of benefits. Businesses that received the HUD grants were required to pay off outstanding liens against their property, including liens that were a result of a disaster loan from SBA. This program was more of a compensation program for downtown businesses than a grant program for businesses with unmet needs after SBA assistance.

In this disaster, SBA approved 92 loans totaling $6,820,600 for the physical and economic losses OK small businesses sustained.

Grand Forks Flood, North Dakota (1997)

As a result of the flooding the City of Grand Forks received HUD Community Development Block Grant (CBDG) funds which they used to establish the Grand Forks Growth Fund (GFGF). The GFGF provided loans to disaster-damaged businesses with a partial forgiveness feature. The GFGF could loan up to $20,000 at 8% for 3-5 years. If the business recipient remained in business in Grand Forks for three years the GFGF would forgive 25% of the loan.

It was our understanding that the purposes of the program included the following:

- "Bridge financing" until a SBA loan could be approved. SBA loan proceeds then liquidated the GFGF loan;
- To fund disaster-related needs not fully covered by an approved SBA loan; and,
- To assist businesses that were declined SBA disaster loan assistance.

In this disaster, SBA approved 1,889 loans totaling $84,793,200 for the physical and economic losses ND small businesses sustained.

Tropical Storm Floyd, New Jersey (1999)

Following the disaster event, the State legislature approved $50 million in relief to victims of the storm that had unmet needs after any insurance recoveries and Federal

disaster assistance (grant assistance was targeted to individuals and businesses). The State required that victims must first apply for and accept all Federal assistance that was offered before being eligible for a State grant. For businesses approved for a SBA disaster loan, the State offered to pay down the loan balance by 20%, up to a maximum of $15,000. Businesses that were declined SBA assistance were eligible for up to $15,000 in State grant funds.

In this disaster, SBA approved 779 loans totaling $41,209,900 for the physical and economic losses NJ small businesses sustained.

Hurricane Floyd, North Carolina (1999)

Following the hurricane North Carolina enacted the Hurricane Floyd Recovery Act of 1999 that established several different programs to assist in the State's recovery efforts. As part of this Act, two programs were made available to business owners.

1. Business owners that were approved, and accepted, disaster loan assistance from SBA were eligible for interest rebates. The rebate was based on the amount of loan funds disbursed and the repayment terms. This program was not considered a duplication of benefits; therefore, proceeds were not applied directly to the grantee's SBA disaster loan.
2. Business owners that did not qualify for a disaster loan from SBA were also eligible for assistance from the program described above. To qualify, the business owner must have exhausted SBA's reconsideration process. The loan amounts and terms were established in the Hurricane Floyd Recovery Act. These loans were administered by the Small Business Technology Development Centers (SBTDC) in cooperation with the State's Department of Commerce. To qualify, the business owner was asked to submit SBA's decline letter and a copy of the SBA application and supporting documentation. If SBA ultimately approved a loan for the applicant, the funds received from the State's program were considered a duplication of benefits.

In this disaster, SBA approved over 3,500 loans totaling more than $153 million for the physical and economic losses NC businesses sustained.

World Trade Center, NYC (2001)

A variety of non-Federal loan and grant programs have either been established, or are in the process of being established, to assist businesses that have been adversely impacted by the terrorist attack at the World Trade Center. The following is a listing of the programs including a short description of the assistance offered from the information we have available.

- **NYC Lower Manhattan Business Retention Grants** administered by the NYC Economic Development Corporation. Provides grants up to $10,000 to professional services, manufacturing, distribution, and other non-retail companies with 50 workers or less. Eligibility is limited to companies that were located in the WTC or the

"frozen zone". Applicants must first apply for disaster assistance from SBA or under the WTC Disaster Recovery Bridge Loan Program.

- **World Trade Center Retail Recovery Grant Program** administered by the Empire State Development Corporation for small and medium sized retail businesses located in two areas (Liberty zone and Resurgence zone) that suffered physical or economic losses as a result of he September 11 attack. To be eligible for this program, a business must have had an establishment located in the eligible area, employ fewer than 500 people, and sell goods or personal services to individual consumers. This program will provide cash grants equal to an estimated 3-days gross revenues for losses suffered as a result of business interruption, with a maximum grant of $10,000.
- **World Trade Center Disaster Recovery Loan Program** is offering bridge loans of up to $100,000 for businesses and nonprofits that suffered economic injury or physical losses and are waiting for their SBA disaster loan application to be processed. Loans tend to be low interest, with fees often waived and deferred interest payments sometimes available for the first year. This program is being offered through seven commercial banks and is made possible by a guarantee fund of $50 million, funded equally by the City of New York and New York State.
- **Seedco Loans, Grants and/or Wage Subsidy Program for Small Retailers.** Small retailers, restaurants, or manufacturers located on or south of Canal Street that were financially hurt by the disaster event are eligible to apply. Seedco will distribute grants up to $30,000, make loans up to $100,000 with interest rates of 1 to 3%, and provide wage subsidies to help retailers retain workers making less than $12 an hour. Seedco also provides loans of up to $500,000 to tax exempt nonprofits affected by the disaster.
- **Accion, NY American Dream Disaster Relief fund** is for micro-business owners not eligible for SBA disaster loan assistance.
- **Fund for City of New York: Cash Flow Program for Nonprofits** is an established fund (since 1976) to assist nonprofit organizations waiting for contract funds from government(s) and foundations (i.e., bridge financing).
- **Nonprofit Finance Fund's (NFF) Nonprofit Recovery Fund** provides flexible financial aid packages designed to help nonprofits return financially to where they were before September 11. Packages may consist of a combination of grants, recoverable grants, and loans.
- **Regional Economic Development Assistance Corporation (REDAC)** provides short-term emergency loans of up to $5,000 for business-related needs such as rebuilding, payroll, inventory replacement, relocation costs, etc.
- **Brooklyn Economic Development Corporation** is providing lines of credit up to $10,000 or Brooklyn businesses or businesses owned by Brooklyn residents. The needs must be business-related and funds may be used to address cash flow issues.
- **Renaissance Business Emergency Loan Fund** provides short-tem working capital bridge loans of up to $15,000 to small, start-up businesses adversely impacted by their proximity to the WTC. Term of the loans is limited to 6 to 18 months with an interest rate of 4 to 6%.

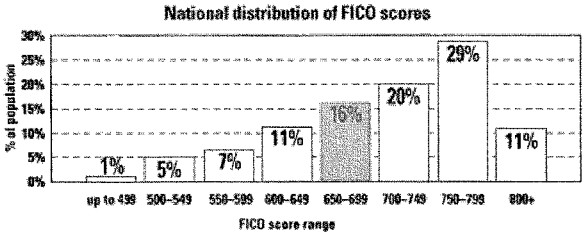
As of November 25, SBA has approved over 1,500 loans representing almost $136 million to businesses as a result of the events of September 11th.

Appendix 2

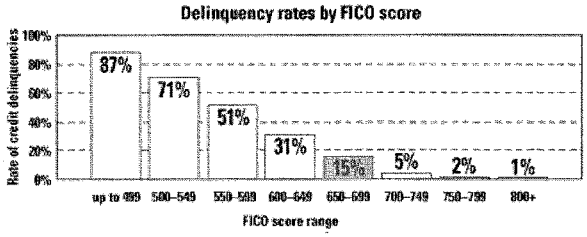
Creditoption.com provides the following grading system of loan quality based on FICO scores, the graphic below is a general guide to what they call the "A-B-C-D" credit. They note that these are typical of the requirements used by many lenders, but are not absolute grades ("lates" are for the past 12 months).

A Loan: Considered the best credit rating. FICO scores are generally 660 and up with no late mortgage payments and less than one 30-day late revolver or installment loan payment. No bankruptcy within past 2-10 years. Maximum debt ratio allowed is 36-40% and maximum loan-to-value ratio is 95-100%. Good/excellent credit during last 2 to 5 years. No bankruptcy within the last 2 to 10 years.
B Loan: FICO scores from 620 - 659. Two 30-day late mortgage payments and two – three 30-day late revolver or installment loan payments in the last twelve months. No 60+ delinquencies allowed. Must be 2-4 years since bankruptcy discharge. Maximum debt ratio averages 45-50% and maximum loan-to-value ratio is 75-85%. No 60-day mortgage lates. 24 - 48 mos since bankrupt discharge. Higher number of continual/rolling lates may be allowed.
C Loan: FICO scores from 580-619. Three - four 30-day late mortgage payments allowed and four - six 30-day late revolver or installment loan payments; or two to four 60's. Must have 1-2 years since bankruptcy discharge. Maximum debt ratio 55% and maximum loan-to-value ratio averages 70-75%. 12 - 24 mos since bankrupt discharge. Continual/ rolling lates allowable.
D Loan: FICO scores below 550. Two to six 30-day late mortgage payments or one to two 60-day late payments. Payment on Revolving and installment loans are generally late. Possible current bankruptcy or foreclosure allowed with all unpaid judgments to be paid with loan proceeds. Stable employment required. Maximum debt ratio averages 60% with max loan-to-value of 65-70%. Bankruptcy discharge within last 12 months. Judgements to be paid with loan proceeds. Not in foreclosure.

The following graphs from FairIsaac illustrate the national distribution of credit scores and delinquency rates.



ncy rates:



Side-by-Side SBA Loans and Commercial Loans

SBA DISASTER LOANS	COMMERCIAL LOANS
Credit History Must be satisfactory. A determination of satisfactory credit is generally based on recent credit history. SBA accepts credit as satisfactory that private sector would consider C- to D if derogatory credit is explained and recent credit is not more than 30 days delinquent.	**Credit History** Credit is generally determined by using credit scores. Some lenders may categorize credit history as A, B, C, or D and will only make loans in specific categories. Also, applicants classified as B, C, or D will often be required to pay higher interest rates if they are approved.
Repayment Based on available cash flow to service the loan amount within a maximum term of 30 years. Use of loan proceeds does not impact loan term.	**Repayment** Based on available cash flow to service a loan within predetermined number of years based on the use of proceeds. Generally, working capital loans have a maximum maturity of 3 – 5 years, fixed assets 7 – 10 years, and real estate amortized over 15 – 25 years.

Collateral SBA takes available collateral on all working capital loans over $5,000 and physical loans over $10,000. SBA takes whatever collateral position is available and does not require a specific lien position or loan to value ratio.	**Collateral** Generally, takes a first lien position on any asset purchased. On commercial real estate requires specific lien position (usually 1st position) and requires a loan to value ratio of at least 75%.
Eligibility Criteria Disaster damage, satisfactory credit, satisfactory character, no Federal liens, no delinquent child support obligations, and a reasonable assurance of their ability to repay the loan.	**Eligibility Criteria** Based on the type of loan program. Credit scores for unsecured and credit card programs usually require scores that would equate to an A credit rating. Equity in real property is often used: commercial property usually requires at least 75% loan to value (LTV), residential property usually requires 80% LTV.
Debt/Income SBA does not have a specific Debt/Income ratio.	**Debt/Income** Different with every program.
Interest Rates 4% fixed maximum for loans without *credit available elsewhere* 8% fixed maximum for loans with *credit available elsewhere*	**Interest Rates** Different with every program. Usually tied to an index that moves with the economy.
Documentation Note, Loan Authorization and Agreement, documentation to perfect security interest in collateral, and/or guarantees.	**Documentation** Note, documentation to perfect security interest in collateral, and/or guarantees.
Loan Amount Maximum $1.5 million per disaster declaration to any business and its affiliates.	**Loan Amount** Different with every program. Impacted by legal lending limits, collateral, equity in property, credit score, etc.
Personal Guarantee Generally required from controlling owners.	**Personal Guarantee** Generally required on all unsecured loans. May be required to strengthen credit.
Credit Elsewhere Test Applicant's determined to have *credit available elsewhere* are subject to a higher rate of interest, limited to a 3-year term on business physical loans, and are not eligible for economic injury loans.	**Credit Elsewhere Test** Not applicable to commercial loans.

SBA Disaster Loans vs. Grants

SBA Disaster Loans	Grants
Cost Subsidy rate. For example, for FY 2002 our subsidy rate is 14.67%, which means that for every $1,000 lent it would cost the Government $146.70	**Cost** 100% of the cost of the program, including program delivery, is borne by the grantor.
Administrative Cost To deliver the program is approximately 10% of the dollars lent.	**Administrative Cost** Unknown.
Eligibility Eligibility is limited to uninsured, uncompensated disaster-related losses.	**Eligibility** Eligibility criteria would have to be defined.
Maximum Amounts $1.5 million per disaster declaration to any business and its affiliates.	**Maximum Amounts** Must be determined based on estimated need and available funding.
Assumption of Risk Most of the risk is assumed by the small business and because of the subsidy taxpayers assume only a small portion of the risk. Additionally, disaster loan borrowers are required to purchase and maintain appropriate hazard and/or flood insurance on the disaster-damaged property for the life of the loan.	**Assumption of Risk** 100% taxpayers.
Credit Elsewhere Test Applicants determined to have *credit available elsewhere* are subject to a higher rate of interest, limited to a 3-year term on business physical loans, and are not eligible for economic injury loans.	**Credit Elsewhere Test** Criteria would need to be established, *if* such a requirement is to be applied. The basic question to be addressed is whether or not grants should be provided to businesses that have access to resources to cover their losses.

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Testimony of

JOAN SWEENEY

CHIEF OPERATING OFFICER,

ALLIED CAPITAL CORPORATION

Before The

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SMALL BUSINESS

December 6, 2001

1919 Pennsylvania Avenue NW
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Statement of Joan Sweeney

Mr. Chairman, and members of the Committee, my name is Joan Sweeney, and I am the Chief Operating Officer of Washington, D.C.-based Allied Capital Corporation. Allied Capital is a publicly traded company on the New York Stock Exchange. Today, we are the largest business development company (BDC) in the United States with a diversified portfolio exceeding $2 billion. Our business is focused on providing long-term capital to support the expansion of growing businesses nationwide.

Allied Capital has been investing in small and middle-market businesses for over 40 years. We provide mezzanine debt and equity financing and participate in the real estate capital markets as in investor in commercial mortgage-backed securities. While most of our lending does not rely on any federal program, we own and operate the oldest SBIC license issued by the SBA. Allied Capital also owns one of the largest lenders in the SBA 7(a) loan program, New York-based Business Loan Express. Business Loan Express is a non-bank small business lender with 31 offices located throughout the country, and is an SBA-designated Preferred Lender in 66 markets.

In sum, Allied Capital's business is the investment in America's small and middle-market businesses.

As a direct participant in the capital markets for small business we clearly see the challenges faced by companies seeking access to growth capital. We know that there are very fundamental problems that inhibit the flow of capital to the small and middle-market business sector.

Certainly those businesses directly and indirectly impacted by the events of September 11 are facing critical capital access problems. As those companies and the impacted communities rebuild and move forward, they need access to capital. I applaud you Mr. Chairman, and the entire Committee, for introducing and reporting out H.R. 3230, the "American Small Business Emergency Relief and Recovery Act of 2001," a bill to provide relief for those companies through SBA emergency loans. These are loans that provide financial support on terms that the private sector simply cannot offer. However, that bill and your efforts go further than that, you have recognized that there are

impediments for all small and middle-market businesses to access capital in today's recessionary economic environment.

Mr. Chairman, those businesses in New York City, Arlington, at airports and other locations that felt the impact of September 11, cannot hope to rebuild and survive unless the small business next door, and down the street, and in the next town can access capital to grow or even to be created in the first instance. We are talking about the dry cleaner, the restaurant, the gas station, and the flower shop. These are companies that employ workers, pay taxes, and allow the economy to grow. Every dollar wisely invested in these companies is a dollar invested in stimulating our economy.

Today there is a severe credit shortage for these types of businesses. Banks simply do not provide commercial financing to start up small businesses, or to businesses without sufficient collateral, or to recent immigrants, or for loans that are deemed too small. Commercial lending becomes all that much more difficult as banks and bank regulators become more risk-adverse in an economic downturn. These small businesses only have two options: high interest credit card debt, or SBA 7(a) loans.

Yet in today's low interest environment it is somewhat hard to determine who might be overcharging more given the risks involved, the credit card company charging 18% or the SBA charging as much as 3.5 points up-front. Can you imagine taking out a home loan today and paying 3.5 points for origination fees? But that is not all. Under the SBA program that is not the only fee, every year the SBA lender must pay to the SBA another 50 basis points in fees on the outstanding balance. In seven years, the average life of an SBA loan, this means the SBA is charging on some loans almost 7 percentage points in addition to annual loan interest! How many of you would take out a home loan and pay 7 points?

These are fees that are directly or indirectly paid by the borrower. And in many instances, these are fees being paid by no one, because the fees price the loan out of reach of the potential borrower who could otherwise start or grow a successful business.

What is worse, the SBA charges have created a billion-dollar windfall for the federal government over the last ten years. The SBA fees are nothing more than a "capital

access" tax on small business. The bill your Committee reported out addresses this issue by temporarily suspending these so-called fees. If you want to increase access to capital for small and growing businesses during an economic recession that is what you need to do.

Mr. Chairman, I also want to take this opportunity to correct what I believe is a fundamental misunderstanding of the program. I have heard too frequently from those who should know better that the fees charged by the 7(a) program should only be modified to help the smallest borrowers -- those borrowing $150,000 or less.

Why?

Because they assert that it is these borrowers who are minorities, women, recent immigrants or somehow need the help the most.

That assertion is wrong as a matter of fact and as a matter of sound public policy.

First, the fact is that you cannot open a dry cleaning store in Manhattan for $150,000. You can't buy a gas station in suburban Washington, D.C. for $150,000. It is our experience that borrowers who take out SBA loans of $250,000, or $300,000, or $750,000 or $1 million are just as likely to be a recent immigrant, or a woman, or Asian, or African American. The credit crisis for small business happens to be rather colorblind. Yet, a disproportionate number of small business borrowers **at every loan size** happen to be represented by women and minorities and immigrants. They pledge their homes, their bank accounts, and anything else they own for a chance to do better for themselves and their families. They work hard and they benefit our economy. And the program's low default rates demonstrate that the vast majority of them succeed.

Second, it is important to maintain a balanced 7(a) portfolio that does not increase default costs for the government. It is our experience that the larger loans -- which pay the higher fees and tend to be collateralized with real estate -- cross-subsidize the smaller loans. Should a change in the fee structure result in the government's portfolio that is more heavily weighted with smaller loans, the costs of the program to the government will likely increase, and perhaps increase dramatically.

Finally, if the objective of changing the fee structure is to eliminate the "capital access" tax on small business and to stimulate the economy, then the approach taken by the Committee in its legislation to suspend for one year the fees across-the-board is the correct course to follow. I only wish the Committee would be able to go further and provide that the fees are cut across-the-board in subsequent years to remove once and for all the SBA "capital access" tax on small business.

Mr. Chairman, and members of the Committee, I applaud your efforts to address the special needs of New York City and other areas impacted by the events of September 11, and to ensure that all small businesses have access to capital at reasonable rates and on reasonable terms. And I hope that you will continue to strengthen the private sector-government partnership that is the SBA 7(a) program. We urge you to act not for the benefit of Allied Capital, but for the benefit of those small businesses across the United States whose only source of capital is the SBA 7(a) program.

STATEMENT
of
Alice Yan
Owner, Acupuncture Therapeutic Care, New York City
December 6, 2001

Thank you, Chairman Manzullo and Ranking Member Velázquez, for having this hearing.

My name is Alice Yan. I own and operate Acupuncture Therapeutic Care at 188 Lafayette Street in New York City. I am a New York state-certified acupuncturist. I have owned my company for two years, and I am the only employee. I worked as an acupuncture therapist in Houston, Texas, before moving to New York to start my own business.

Since September 11, my business has had a difficult time. Before September, I would have three or four customers a day. But now, I see three or four customers a week.

Some of my clients come all the way from Queens and Long Island. But now it is very difficult for them to visit my business. Security keeps people from driving alone into Manhattan. Traffic and air quality are very bad. And after 911, people are holding money in their pockets.

Like many others in New York, I was worried about how my business would survive. That is why I am very grateful that "Asian Americans for Equality" told me about the Small Business Association disaster loan program. I did not know it existed before then.

I applied for an economic injury loan from the SBA. The process was very complicated and took over a month to complete. I asked for 15,000 dollars. But SBA only approved me for 9,300 dollars. They asked me to put up my collateral for almost half of that! I took only 5,000 dollars from SBA. In the last week before I

received the SBA loan, Asian Americans for Equality approved a much larger disaster loan for me.

The loans help me pay my rent and expenses while I work to attract new customers. I really appreciate the SBA loan, and I am working very hard to pay it off soon.

But I hope the committee can learn from my experience. Dealing with the SBA at the Community Center in Chinatown was difficult --- sometimes, more difficult than with commercial lenders.

SBA took too long. In the first month after September 11, I had almost no customers. I needed help immediately, and I worried I would lose my business. I hope you can find a way to speed up the loan approval process.

There is a lot of paperwork to apply for a loan and it is very complicated. In fact, some of the paperwork needed a CPA, which costs me additional money before I even qualify for a loan.

After I filed my application, SBA workers would call often to clarify problems. For example, they didn't understand that I don't own my home --- I lease it. Constant interruptions made it difficult for me to work.

I hope that in the future the SBA can work more quickly and more easily with small businesses like mine. There should be less paperwork and it should be easier to understand.

SBA needs to know how difficult it is for businesses like mine --- where I am the only employee --- to find the time to deal with this complicated process. Every loan application should go more quickly, without the help of an outside group like Asian Americans for Equality.

But I am very grateful for the help SBA provided, because it helped me keep my business open. I am here because I hope the other businesses can learn and benefit from my experience.

I would like to thank the committee for holding this hearing and for giving me the opportunity to talk about my experience with the SBA.

Thank you very much.

TESTIMONY BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
REGARDING EFFORTS OF RELIEF AGENCIES
TO PROVIDE SMALL BUSINESS ASSISTANCE
PRESENTED BY DON LEE, DISASTER ASSISTANCE CENTER COORDINATOR
CHINESE CONSOLIDATED BENEVOLENT ASSOCIATION
December 6, 2001

Good afternoon ladies and gentlemen. Thank you for inviting me to participate in today's hearing. My name is Don Lee. Today, I am speaking as the Disaster Assistance Center Coordinator at the Chinese Consolidated Benevolent Association (CCBA) located at 62 Mott Street in downtown Manhattan. (CCBA is a community-based organization serving the Chinese American Community in the greater New York Metropolitan Area since 1883. The CCBA is not a recipient of any federal grants or contracts.) Professionally, I am a manager for a major software company (Computer Associates International, Inc.). Prior to my current position, I served 5 years as Director of Operations in the New York City Department of Business Services of the Giuliani Administration. In addition, I currently serve as a member of Community Board 2 in lower Manhattan.

In response to the September 11th attack, the CCBA provided without cost or charge, office space, equipment, supplies, food, water and organized more than 150 interpreters at no cost to serve those affected by this tragic event. The CCBA's conference rooms and auditorium have been converted into satellite offices for various relief agencies, charitable organizations and government agencies such as FEMA, the Red Cross, the Department of Labor and the SBA. Services offered include multilingual information sessions, as well as direct services such as the distribution, intake, preparation of disaster loan applications, and the processing of grants on-site for both residents and businesses. In its last report, FEMA noted that more than 16,000 combined businesses and residents have been served since the disaster assistance center went into operation on September 20th.

While the community is extremely thankful and impressed by the professionalism, dedication and abilities of the SBA and FEMA staff assigned to the relief efforts, the business community found the effectiveness and efficiency of the overall relief programs to be woefully inadequate for small businesses. In many instances, the process frustrated those seeking assistance, and many more were disappointed by the outcome. Many felt that their expectations were unreasonably raised and then their efforts and energy wasted by the process.

People, process and technology are the components by which problems are solved. Without being overly simplistic or critical, our observation is that the SBA and other relief agencies did not have enough people who could effectively communicate with the victims. The process is long and tedious and pen and paper is the primary intake and feedback technology.

As we hope and pray that our nation will never have to deal with another tragedy. I feel compelled to share with you some of our experiences, observations, areas of concerns, and recommendations for providing disaster relief to small businesses in immigrant communities in an urban environment.

We believe the success of any program is predicated by:

- The speed and responsiveness of process and execution,
- The program's coverage in terms of geography, as well as providing coverage for those related businesses that are interrelated and dependent,
- And, most importantly assigning reasonable risk factors for which each applicant is held accountable.

The following are areas of concern with recommendations from our observations:

Risks Factors

There are two primary factors that discourage victims of this tragedy from either applying for or accepting loans from the SBA.

The first is the personal risk to an individual's assets that the SBA requires to be pledged as collateral for a loan. An owner of a toy store in the community turned down a $50,000 loan from the SBA, funds that he needed to carry him through the holiday season, because the SBA required him to risk his only tangible asset by mortgaging his home. He felt that the psychological burden of placing his family's shelter at risk outweighed the burden of trying to re-start his business without adequate capitalization.

The other risk that concerns many is the success and recovery capability of the overall local economy. As one restaurant supplier said, "Helping me re-open is not enough. If the SBA can not help my customers, all it means is that I just got myself into even more debt."

Recommendation: In response to disasters that impact every sector of a community, the SBA should consider providing a stimulus program that will assist each sector - an uplifting of the entire community - without forcing greater, unreasonable economic, legal and psychological risks on the victims. Only then can we fashion a "solution" that is meaningful to all.

Operational Efficiency

- *Insufficient or no trained bilingual staff or interpreters.*
  The process, forms and instructions are often confusing even for applicants fluent in English. As you can imagine, that problem is magnified for applicants with limited English. The lack of interpreters frustrates both the intake officer, as well as the applicants. Furthermore, the extra time required to meet with each applicant prolongs the entire process, thus reducing the ability to service a larger maximum amount of applicants each day.

  Recommendation: Provide staff with bilingual capabilities. Streamline the hiring process for interpreters.

- *Forms/applications and instructions not available in other languages.*
  At a minimum, the instructions should be available in different languages. It makes sense to ensure that each applicant can at lease figure out on their own which document they must submit in connection with their applications, such as tax returns, leases, business licenses or financial statements. Perhaps the SBA can create a "pre-qualification" package, written in different languages, outlining required documents and information as well as approval criteria, for dissemination to interested parties.

  While few small businesses have the necessary means or expertise for completing an application without assistance, each business owner is capable to gathering the require documents and information so that he or she can show up with the necessary documents in hand and complete the application process in one day.

  Not having official instructions in languages other than English has resulted in each applicant having to spend extra hours if not days or weeks to get the forms completed while trying to run their business at the same time.

- *Loan approval qualifications and the loan amounts are not quantified.*
  Unlike loans offered from commercial financial institutions, SBA does not request a specific loan amount on its application. As a result, businesses cannot properly plan its finances or make other adjustments.

  Recommendation: Provide for the input of the loan amount needed in the front-end of the application process.

- *Forms are unnecessarily complicated and tedious.*
  The economic relief grant offered by New York State is processed via a one-page form. In contrast, the SBA application is a booklet that asks for three years worth of historical information that have been already reported to government agencies, such as the Internal Revenue Service, as well as state and local tax collection departments.

- *Family businesses have to deal with additional complications.*
  Many immigrant businesses are created by many family members or friends pooling their life savings together. By requiring each and every business partner to provide their own historical financial information, the SBA multiplies the burdens and adds complications to an already tedious and inefficient process. Again, the information required should be readily available from other government entities.

  Recommendation: Since the SBA validates the information from the IRS as part of its procedure, it makes sense for the SBA simply to get the information from the IRS and not put the responsibility on the victims. Technology is available make this process simple for everyone.

Timing

Small businesses, especially those in immigrant communities, are operating on extremely low margins. This week's intake pays for next week's supplies. Therefore, it is critical for loans and grants to be made available quickly. While many businesses reported revenue drops of 80 to 30 percent, their overheads remain at 100 percent. One tour operator built his business by pooling together his family's entire life savings to lease several tour buses. However, all the vehicles were repossessed, because he did not have the cash to make the payments. Many limousine owners and operators faced the same challenge. With their entire life savings wiped out, it is very unlikely that these hard-working Americans will have the capital needed to start their businesses again.

Adding to the frustration is the length of time needed to be process the application, as well as the time involved with scheduling. Many applicants, as well as the news agencies, have reported that the average processing time to go through the entire system is about three to four hours long, with some as long as six hours. New applicants are asked to return for an appointment in three weeks.

Recommendation: In a disaster situation, the SBA is the last hope for many small businesses. A "one-size fits all approach" does not work. The SBA needs to prioritize applications and process loans based on the needs and circumstance of each applicant. Intake and applications should be available via the Internet or other technologies.

All of us in our community support the President's call to be stronger than ever in the face of this attack. We do have the courage to deal with the challenges of rebuilding our economy and our city. To offset the impact of this disaster, we do need the support of government agencies like FEMA and the SBA to expedite and provide assistance. Inefficient operations hamper the recovery efforts, drain resources, and demoralize the spirit of the community. This disaster has been labeled extraordinary and unprecedented. I believe the relief efforts must also be extraordinary and unprecedented. Let us use the recent events not merely to restore, but as an opportunity to improve our great country.

Thank you.

Steamers Landing

On the Esplanade between Liberty and Albany
New York City, NY
212-432-1451 slanding@aol.com

Mr. Chairman, Ranking Member Valazquez, members of the Committee, thank you for inviting me to testify today before you regarding my experiences related to September 11.

I know you have heard many sad and heroic accounts from that day onward. This is mine.

I am the major shareholder and co-manager of Steamers Landing Restaurant located on the Esplanade between Liberty and Albany Streets in Battery Park City. We are located just two blocks west of the WTC site.

My restaurant (Steamers), my partner (co-manager sister-in-law), and 35 employees were directly impacted by the physical and economic damages wrought by the attack.

By 9am on Sept. 11, Steamers was full of people who sought shelter and hope of escape. Before the buildings came down police or fire officials broke my windows. As the Towers fell Steamers became a giant vacuum cleaner as the 120mph wind created suction from the 35 floors above. Filth, grime and unspeakable debris filled every cranney.

For the first several days I tried in vain to get to Steamers. Finally, ten days later I was able to remove some valuable papers and dispose of the rotten food. Two weeks after that we started taking inventory and talked of re-opening in the spring. Half of our chairs and outside furniture were missing or scattered around the neighborhood. Debris was everywhere and not knowing the content of it has been difficult to deal with. Replacing $25,000 in ruined food and beverage, a HVAC system, along with several refrigerators and a lot of electronic equipment, plus the furniture, repainting and refinishing must be accomplished. A new ceiling must be hung because the building suffered a leak that came from the 17th floor into the restaurant. There is also a fractured sewage tank and a flood in the basement from when the electrical went out. At first I was crazed that no government agency was offering to clean the debris of the WTC from inside my restaurant. Now I want to create something new and fresh and I am optimistic that we will succeed sooner than later.

Financially, I thought insurance would help because I bought business interruption after the first bombing of the WTC. We also have replacement value in the policy. Yet the adjuster who has been assigned to Steamers talks of dusting off and reopening as soon as possible. In the almost 3 months, I have received just $40,000 while our monthly overhead is about $30,000. We had $40,000 in the bank on Sept. 10th which is now depleted. Our destroyed inventory was worth about $100,000 at resale value.

Personally this experience has meant tremendous financial hardship as well as being an emotional disaster.

We have been able to take advantage of 2 grants totaling $10,500, hopefully there will be more grants available for working capital, and improvements. I remain optimistic about the insurance.

In mid September I applied for a SBA loan just in case other sources failed*. I spent time with my accountant and submitted the proper forms. The SBA inspector who inspected the Steamers "site" said he could not get into the restaurant but said not to worry he had a good feel for what happened and had to leave for Buffalo the next day. It was impossible for him to know the extent of the physical damage especially in the cellar, the ceiling, HVAC, and loss of property. On Oct. 11th I was told that I would be awarded a $150,000 loan but was told the Government would have to take my home as collateral. Since my wife and I jointly own our home and she is not involved in my business, pledging our home was out of the question. They could not recommend any alternative accommodation. As of Sept.10th I had a $110,000 unsecured line of credit with my bank and a good balance sheet. I could not understand the refusal since this was purely business related.

Steamers Landing, my only business sits in a beautifully maintained park in Battery Park City and is located right on the Hudson River. For 12 years we have maintained a relaxing atmosphere while offering good dependable food to those who occupy the 175 seats on two outdoor terraces. A bar and 80 seats fill the interior space. The Statue of Liberty, the intense colorful sunsets and the shimmering River finish the decor. The Twin Towers rose forever upward just East of us and added the defining touch to the view.

I opened my first restaurant in NYC in 1968, married and raised two children. I am presently President of the City Chapter of the New York State Restaurant Association and active in the State Association.

In reflection on this testimony, it is my hope is that this committee is able to formulate new SBA regulations that will eventually help restore lower Manhattan. The old ones will not work. This will take determination by businessmen and faith from those who control the money. You must spend money to make money and if you look at the pre Sept. 11 business plan, I think all bets should be on us.

I believe a combination of new grants, loans, and tax and wage credits must be created as well as new criteria by which loans are approved and other pre-loan requirements. I also believe that we have to work together on this until we all see the light. We all need a long-term commitment from each other. If nothing is changed, and this legislation is just another political exercise, then God help us and this wonderful maturing country we call the United States of America.

* The President was encouraging with $20 billion available to help rebuild NYC.

Note- I believe on the Oct. 25th the The Alliance for Downtown New York, Community Board 1, Congressman Nadler, and others organized a meeting for small business at the New York Law School. Additional representatives from FEMA, SBA (Aubry Rodgers), Marilyn Wills, plus others were on the committee. About half way through the meeting, it was obvious to me, from the responses, that every one of the committee members assumed small business was being helped by FEMA and other organizations. I was frustrated as I could see others were and at the question/answer session that was soon to follow I asked the entire group if anyone had yet to receive help for their business from FEMA (at this time FEMA was just directing calls) or any other Agency. There was dead silence. Others then started giving their stories. From that point on Congressman Nadler arranged the Lobbying session on November 1, and now help seems to be starting to come. Thank you Congressman Nadler, Carl Weisbrod of the Downtown Alliance, Virginia Fields, Kathryn Freed and all the others for this beginning and hearing us.

Fax from
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Fax to: Committee on Small Business
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Content: Testimony Reference no.: 011206b

Comments: This additional paragraph was omitted do to being over the time limit in my testimony. It is my hope that this Government is able to make the money available to those of us who have lost so much but are determined to rebuild in lower Manhattan.

"In reflection on this testimony, it is my hope is that this committee is able to formulate new SBA regulations that will eventually help restore lower Manhattan. The old ones will not work. This will take determination by businessmen and faith from those who control the money. You must spend money to make money and if you look at the pre Sept. 11 business plan, I think all bets should be on us."

Testimony to HOUSE SMALL BUSINESS COMMITTEE 12/6/01 by Michael Kramer

According to JP Morgan Chase, before the World Trade Center attacks there were nearly 7,800 businesses with annual revenues of $10 million or less at Ground Zero, and about 34,800 of them south of 14th Street in Lower Manhattan. As an owner of an audio/video retail store, I am proud to be asked to revisit Congress and speak at length about the challenging times that we are facing as small business people struggling to stay afloat in the Downtown area and to thank the Chairman for championing HR 3230, the American Small Business Emergency Relief and Recovery Act, and our Congressmember Jerrold Nadler for HR 3272, the World Trade Center Attack Claims Act.

I am a life-long New Yorker, leaving only briefly to attend college in Beloit, Wisconsin and graduate school at the University of Kentucky. Our family owned business has been based in the Tribeca neighborhood of Manhattan since 1969.We have been a part of the creative community helping to turn the vacant lofts into a thriving residential and commercial area. My two boys have enjoyed playing sports as I served on the Board of Directors of the Downtown United Soccer Club and Greenwich Village Little League and the local Community Planning Board.

After watching the first plane hit the first tower, while crossing the street to my office, the shock of witnessing firsthand an act of war is something that I will never forget. Although we suffered no physical injuries, this economic and psychological trauma has haunted us ever since.

Our location was in the "frozen" zone, for the rest of the month of September. No customers were allowed to walk below the demarcation line of Canal Street on foot, and up until as recently as two weeks ago, any motorist trying to visit us had to pass through a checkpoint that included a NYC cop, a NYS trooper and an army guy. In the months of September, October and November, our customers have had to run a gauntlet in order to patronize our store.

There is an acrid smell of smoke from the fire that will continue to burn into spring, 2002. Whenever a large piece of debris is lifted, the rush of fresh air fuels the burning of who knows what kind of chemicals, exposing us to the health risks of PCB's and asbestos. The City routinely wets down the main avenues leading away from Ground Zero so as to keep the motor vehicles from tracking these carcinogens uptown.

With only seven days of receipts for September, we still had to be timely with our October rent of $14,000.00 for our "fancy" Tribeca corner store location. FEMA worked with CHASE Bank to extend our line of credit by $10,000.00 to satisfy our landlord. (who had to make their mortgage payments as well)? Our business in October was down 55% from the previous year; our business in November was "only" down 35%.

As soon as we could take stock of our situation, we contacted FEMA for help. Their response was to refer us to the Small Business Administration for help. The SBA only had one instrument available to help, in the form of Economic Injury Disaster Loans (EIDL), which are defined as assistance that is "available only to applicants with no Credit Available Elsewhere". Our firm was turned down based upon an "unsatisfactory credit history, and inadequate working capital resulting in a lack of repayment ability". In short, without putting up our homes as collateral, we did not qualify for the only form of Federal assistance available, a low-cost loan.

We need and needed grants not loans... Why go further into debt to finance a business without customers for a significant period of time? Why should we be asked to choose between staying open and paying off debt? Why make commitments to staying in the downtown section of Manhattan if the SBA has likewise turned down 70% of our commercial neighbors?

Small business people are by definition initial risk takers, entrepreneurs who pioneered ideas and products and take them into the public domain. We need the opportunity to have access to a grant program to help provide monies without payback or assuming any more debt. This is so important to us to make immediate repairs, to pay our rents, to meet our payrolls, and keep our staffs employed until conditions improve. Starting all over again because of a terrorist attack against the United States of America was never a scenario that we considered.

This was an Act of War, not a natural disaster. Assuming that the SBA was not around in 1816 when the White House was burned down by the British, it is quite clear that they had no program in place to deal with a completely different set of issues. New Yorkers are not shy in their directness... I must remind you that we Americans spend trillions of dollars on military readiness and intelligence and to our great mutual regret this World Trade Center attack still happened.

Who is looking out for the tens of thousands of small business people in Lower Manhattan who have had their day-to-day life and long-term prospects turned upside down? The airlines and insurance companies immediately seized the moment and got bailed out by the Federal Government. The Small Business Administrator who I met at the Pier 94 intake center, didn't have what I needed because this was not in his range of experience as a weather-related event, collectively, we all speak now of our lives "post 911" and the trauma that we have all suffered.

We are the last people you would normally see asking for public largesse. Small business people are fiercely resilient with a strong independent streak. These are extraordinary times in the Downtown district. Direct Federal grants are needed now to pay our overhead costs, to regroup and allow us to hang on until our neighborhoods return to what passes as normal life. Our customers are hesitant to breathe the acrid air, leery of running the gauntlet of continuing police and military presence, unsure as to whether we collectively will have the wherewithal to survive. The massive response to public fundraising that is in place has properly gone only to the brave families of the victims of this disaster to whom we can only extend our sympathies and understanding. But, there are no programs in place for our needs and time is of the essence!

The only people coming Downtown are the tourists, who have been asked by our Mayor to stay away, stop taking pictures of a mass grave and crime scene, and give us time to heal. There is a general concern about the air downtown, coupled with the fact that the cleanup will take at least another year. We will need to develop strategies for the next year and beyond as we struggle back to some semblance of normalcy. Yet, we are extremely grateful that we have collectively kept our wits about us to survive the challenge of the last three months and to navigate the various public and private assistance programs and their well-meaning administrators.

It is presumptuous on our part... to ask Congress to allocate direct Federal grants. But we are New Yorkers. That they will provide the financial and technical resources that will keep our small businesses afloat, and help subsidize the retention of thousands of low and middle class jobs is just pure common sense. This disaster has made us all New Yorkers and we are proud to share our heritage with our nation and with the world.

Statement

of

JAMES KING

State Director

New York Small Business Development Center

90 Days After September 11th – How Are Small Businesses Being Helped

Testimony provided before

The House Small Business Committee

December 6, 2001

Chairman Manzullo, Members of the Committee, my name is Jim King. I am the State Director of the New York Small Business Development Center (SBDC). I appreciate the opportunity to testify today on the Federal agencies' efforts to provide assistance to those small businesses directly and indirectly impacted by the terrorist attacks of September 11, 2001, especially as they relate to the World Trade Center area in New York City.

It is important to explain the unique position of the SBDC program within the impact area. The SBDC in New York City has been continuously providing small business services with the Small Business Administration (SBA), New York State and our partners since 1985. We've worked with 79,740 entrepreneurs through one-to-one business advisement and offered 2,616 training events attended by 84,330 persons.

On September 11th, I joined with all other Americans in watching the heinous terrorist attacks. I was traveling, but the process of assisting the impacted small business owners started immediately. We had a disaster recovery plan formulated as a recovery plan from natural disasters that had served us well in previous severe flooding, ice and storm recovery efforts. It became apparent that this plan would not respond to the World Trade Center disaster. Here, the extent to which small businesses would be impacted and the time forecast to recover was unknown; nothing had prepared us for this type of disaster.

I believe the SBDC program is unique among SBA programs because SBDCs are based upon the partnership between SBA, host-institutions, each state and territory, as well as the private sector. In responding to the World Trade Center Disaster, every element of this partnership was relied upon to help meet the needs of small businesses impacted by the disaster.

SBA was the first partner to impact the SBDC's responsiveness ability. I'd like to especially thank the SBA Administrator, Hector Barreto, for his approval and leadership

during this time. Although he had been appointed less than two months earlier (July 25th), he approved and facilitated assistance to the New York SBDC that allowed us to be far more responsive than we could otherwise have been.

September 11th falls near the end of our fiscal year (October 1st), and our ability to respond to this major disaster was limited, fiscally. It was probably our good fortune that I was attending a meeting with the SBA's Office of Small Business Development Centers Associate Administrator, Johnnie Albertson, when the attack occurred. The next day Johnnie was able to offer supplemental funding to support our disaster recovery efforts. She also set about to reprogram some additional support.

In order to qualify for the additional federal funds, each SBDC host institution nationally, all 57, had to approve a plan for the re-allocation of funds that had been unspent from the previous year in California and six other states. This was accomplished in just three days, endorsed by each program, and made available to us. I can not over emphasize the importance of these funds because the New York SBDC program was preparing to implement a budget that reduced funding by $300,000 due to the impact of the 2000 Census.

These additional funds enabled us to implement our evolving disaster recovery plan. I should add that the State University of New York provided a 100% waiver on this disaster funding that helped guarantee that all funds were available to be allocated to the recovery effort.

The SBDC disaster recovery plan included a commitment from every SBDC service location in New York State, 23 Regional Centers, to temporarily transfer experienced staff to the disaster area. Every Center in the SBDC network responded with volunteer experienced Business Advisors for assignment to the metropolitan area. These experienced staff allowed us to initiate services at three emergency locations and forego the necessary training and professional development programs that ensure quality-based

small business services. These staff know the intricacies of existing federal, State, local and private programs to match the small business needs with the appropriate resource.

It was clear that the SBA Disaster Loan Program was confronted with a disaster on a scale that had never been seen. The volume of people seeking information and assistance was overwhelming. The State's Empire State Development Agency set up a toll-free hot line call center to immediately capture lists of affected businesses, a walk-in service center was jointly staffed by almost every assistance provider, including the SBDC, and the business of recovery effort took shape. The SBDC coordinated our own statewide 800-telephone service with the State and FEMA to make sure that individuals were registered and received business-counseling services at our regular and temporary service locations. Space at SBDC host campuses was made available to SBA wherever needed.

On September 25th, just two weeks after the disaster, the SBA Disaster Loan Program accepted the SBDC offer of application assistance and conducted a New York City and downstate training program for all SBDC Centers (eleven locations) to authorize dissemination and assistance in completing SBA Disaster Loans, economic injury and physical damage. This initiative reversed the historical tradition of having a single point of dissemination of SBA applications. Later, all SBDC locations statewide were covered with similar training, allowing small business owners to obtain applications and assistance near their homes (when travel was restricted due to the disaster). Each SBDC location received an initial allocation of 100 applications and re-orders were filled immediately. Over 2,000 applications have been distributed through the Centers, with half of those small business owners requesting assistance in completing the applications, primarily economic injury applications.

The SBA District Office, headed by Aubrey Rogers, has been excellent in guaranteeing service delivery in downstate New York. Aubrey heads an office that was within the immediate impact area and operated from temporary offices, often on the run

with a cell phone, for weeks after the event. With Aubrey's assistance, the SBDC launched a series of educational forums throughout New York City to answer small business owner's questions and direct them to the right assistance. When it was clear that businesses in an area had not responded, Aubrey and volunteers from his staff and the SBDC went door-to-door visiting small business owners and distributing information.

The State is the second key partner in the SBDC. In many ways, the State was the first response and filled that critical time gap in the first days following the attack by establishing outreach to the small business community and coordinating with federal and City efforts. As callers were received by the State, referrals were made to SBDC locations to assist small business owners in starting the recovery process, whether that included re-constructing documentation, revising their business strategy and focus or completing funding applications.

The State's Empire State Development Agency became a very nimble and flexible entity almost overnight. Strategy discussions resulted in identified needs and brought new programs into creation and launched almost overnight. Whether it was the need to identify available space, set up temporary operations or secure gap financing, resources were marshaled to meet the need.

The third major partner in the SBDC is the private sector. In the days following September 11th, it became clear that corporations and small businesses across the nation were interested in contributing to small business recovery in the same way that individuals were supporting the victims of the attack. With the private sector, the SBDC adopted a policy of supporting all efforts to assist in the recovery process, and I'd like to highlight a few of these efforts.

The SBDC entered into an agreement with a banking consortium SBA guaranteed lender, the New York Business Development Corporation, to administer a new micro-lending fund entitled the "World Trade Center Small Business Recovery Fund",

structured as a 501(c)3 not-for-profit. Founding sponsors of the Fund are American Express, Deutsche Bank and the Principal Financial Group, who each contributed at least $250,000 to allow the fund to make up to $5,000 loans, in an unsecured manner, with approvals in less than three working days. This rapid turnaround is possible due to the support and cooperation of the IRS and New York State Tax and Finance, who confirm baseline borrower data in less than 24 hours. These loans are interest waived for six months and principal deferred, with a term of three years at 3.5% interest.

Contributions to the Fund have ranged from as little as $25 and provided many small business owners with a method of becoming directly involved in the small business recovery process. Applications are accepted through the SBDC Centers and may be combined with other available programs to more fully meet the financial needs of impacted firms. Fundraising is still ongoing to support a Phase 2 of the Fund to underwrite subordinated loans of $25,000-$50,000 to firms that can leverage SBA Disaster Loans or commercial and guaranteed loans with flexible gap funding. As these loans are repaid, the funds will continue to revolve in the disaster area and facilitate long-term recovery.

American Express and Deutsche Bank are two corporate entities that also were directly impacted at ground zero. Being at ground zero, they have taken extra efforts to volunteer staff and support special outreach programs to assist small business owners in the area to rebuild.

One of the results of the attack, which had not been fully appreciated from the disaster, was the disruption to communications for small business. We all saw the closure of the stock market and the obvious priority that had to be placed upon bringing those communication lines back, but thousands of small businesses simultaneously lost telephone, fax and Internet communications, some of which are still not fully restored.

To help handle this need, Compaq Computer donated 60 personal computers to SBDC locations throughout the metropolitan area for use by small business owners needing to restore records; access the Internet or work on recovery business plans and complete funding applications. Microsoft, RhondaWorks and Intuit donated software while Fed Ex delivered the units without charge. The SBDC is working with Intuit, the maker of Quick Books and Quicken, to distribute 500 copies of free software to small businesses as well as contacting 200 Intuit customers to receive a $1,000 grant from Intuit. These firms also are eligible for Intuit sponsored technical assistance and service fee waivers for up to one year. The Association of Small Business Development Centers (ASBDC) helped initiate these corporate contributions.

New York City leading financial institutions similarly rose to the challenge and launched, in cooperation with the State and City, special disaster loan programs to bridge the time between SBA Disaster Loan applications and fund disbursements. The SBDC has always maintained a close working relationship with commercial lenders and the September 11th disaster raised this relationship to new levels. The best example of this effort occurred within the first week following the disaster; a small towing company had worked around the clock to remove damaged or parked cars from the impact area. After a week of work, the owner realized that he would not be able to meet payroll and sought an emergency loan. Following necessary calculations and faxes with the bank, a $50,000 working capital loan was approved in less than three hours and credited to the owner's account. Many larger and smaller bridge loans were underwritten in a streamlined process in response to the needs of small business.

The final initiative to acknowledge stems from the observations associated with the major charities and even FEMA, where emphasis is directed toward the individual victim. I do not believe you can separate the individual from the business when you consider the small business owner. Through discussions with Padgett Business Services and their Foundation, a scholarship fund for children of small business owners within the impact area is being established. I can assure you that some of the recipients of these

scholarships will be the small business owners that grow and prosper in the future in Lower Manhattan.

Given these efforts that have been undertaken on behalf of small business recovery, the question remains whether this has been enough? Has the SBA and other agencies responded to the needs of small business owners who have suffered from the terrorist attacks? Are the federal programs currently in place sufficient to provide the assistance necessary for small businesses to recover? Speaking for the SBDC and the small business owners we are charged to assist, the answer must be no!

Most of today's small business owners have never experienced a significant downturn in the economy. This has not prepared them for the dramatic local economic downturn that took place on September 11th as well as the larger economic slowdown that had already started before the attack. In a recent survey by the U.S. Chamber of Commerce, approximately 57% of businesses reported a decrease in revenues averaging 34%. 28% of businesses reported an increase in revenues, averaging 15%. While this is not positive, the majority of all small businesses (68%) still forecast stable or increasing revenues within 12 months. This confidence is the basis for rebuilding the growth economy, driven by small business.

The key question becomes whether the current programs, in place federally, are sufficient to assist small business owners and build upon that confidence. In the case of the World Trade Center disaster, in the metropolitan area of New York City, there definitely needs to be some retooling or flexibility added to SBA's Disaster Loan Program. Fundamental problems exist that are inherent to higher cost areas, such as New York City, where traditional standards for financing and the baseline costs of doing business fall outside the historical norms for underwriters. Simple guidelines such as size standards, that may make sense in rural and suburban locations, are overly restrictive in major urban locations.

Another key obstacle that obstructs the recovery process in a commercial center such as New York City is the exclusion of key sectors like financial services. Financial markets and the international trading entities that define financial service centers dominate the World Trade Center area. By restricting or eliminating these services at all levels within the New York City marketplace, we automatically limit the potential for responsiveness of SBA's Disaster Loan Programs.

Outside of the immediate impact area, a great deal of confusion exists with regard to proving the direct impact of the attacks upon businesses. There needs to be an easier qualification for businesses directly or indirectly impacted by the terrorist attacks if our programs are to become fully responsive.

In many respects, these concerns would be addressed with passage of HR 3230, as passed by this Committee. Although I am not fully conversant on all aspects of HR 3230, I understand the legislation modernizes SBA's Disaster Loan Program, expands SBA's other loan programs and clarifies eligibility rules to make it easier to qualify for small businesses affected by terrorism. These concepts sound very positive to me. I believe they would have a dramatic impact upon thousands of New York's small businesses that are outside SBA's Disaster Loan Program looking for help right now. I applaud the Committee's efforts in reporting out this important legislation. I hope the full House will act on it promptly.

Thank you.