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FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S RESPONSE TO THE 2005 GULF COAST HURRICANES

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UNITED STATES HOUSE OF
REPRESENTATIVES

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CONTENTS

OPENING STATEMENTS

	Page
Velázquez, Hon. Nydia M.	1
Chabot, Hon. Steve	2
Braley, Hon. Bruce	3
Jefferson, Hon. William	4

WITNESSES

PANEL I

Melancon, Hon. Charles	5
Baker, Hon. Richard	36

PANEL II

Preston, Hon. Steven C., Administrator, Small Business Administration	8
Shear, William, Government Accountability Office	10

PANEL III

Francis, Edward G., On behalf of American Banker's Association	39
Colosino, Donna, Small business owner, CRESCENT Power Systems	41
McDonald, Bryan, Governor's Office of Recovery and Renewal, State of Mississippi	43

APPENDIX

Prepared Statements:

Velázquez, Hon. Nydia M.	56
Chabot, Hon. Steve	57
Melancon, Hon. Charles	59
Baker, Hon. Richard	61
Braley, Hon. Bruce	63
Shuler, Hon. Heath	65
Preston, Hon. Steven C., Small Business Administration	66
Shear, William, Government Accountability Office	72
Olivier, Hon. Michael, Secretary of Economic Development, State of Louisiana	86
Francis, Edward G., On behalf of American Banker's Association	92
McDonald, Bryan, Governor's Office of Recovery and Renewal, State of Mississippi	105
Colosino, Donna, Small business owner, CRESCENT Power Systems	111
Smith, Patricia, Small business owner PEMBA Lighting and Automation	117

FULL COMMITTEE HEARING ON THE SMALL BUSINESS ADMINISTRATION'S RESPONSE TO THE 2005 GULF COAST HURRICANES

WEDNESDAY, FEBRUARY 14, 2007

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

The Committee met, pursuant to call, at 10:00 a.m., in Room 2360 Rayburn House Office Building, Hon. Nydia M. Velázquez [Chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Jefferson, Shuler, González, Grijalva, Cuellar, Altmire, Braley, Ellsworth, Johnson, Sestak, Chabot, Akin, Gohmert, Heller, Davis, Fallin, Buchanan, and Jordan.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Well, I call this hearing to order. Today we are holding a hearing on the Small Business Administration response to the 2005 Gulf Coast hurricanes to review various aspects of the SBA response on disaster relief programs.

The Committee will hear testimony and comments from members of the Gulf Coast region, two of our colleagues, the SBA administrator, Steven Preston; Mr. William Shear from the General Accounting Office; as well as representatives from other government agencies and members of the small business community from the region.

Over a year and a half ago, this nation witnessed one of our country largest natural disasters, Hurricane Katrina. The impact was enormous. And one thing we all learned is that there is nothing more critical than assuring assistance is provided immediately and efficiently to all of those in need.

Today's hearing will examine the response of the Small Business Administration to Katrina, its system to effect the small businesses, and the current state of the SBA disaster loan program.

In the aftermath of the Gulf Coast hurricanes, thousands of small businesses turned to the SBA for assistance. Many applications were stalled in an agency backlog that took months to process. Not only was there a buildup but a disbursement of funds was also significantly delayed.

Those who were approved for loans often waited months to receive any funds. To date, of the 422,558 applications approved, only 22 percent, 22 percent, have been fully funded. Clearly we have a

long way to go to make sure small businesses in the Gulf Coast are up and running again.

I want to make one thing clear this morning. The agency's poor response to Katrina victims was not due to the severity of the storm or any unanticipated factors. The SBA failed Gulf Coast entrepreneurs due to poor planning, lack of training, and improper distribution of resources. This was unacceptable and cannot happen again.

What I have appreciated about Administrator Preston is that he has recognized that changes must be made. Today we will review those changes. The goal must be to ensure SBA is prepared to provide a system the next time a disaster like Katrina occurs.

The General Accounting Office report gives insight into where the agency is and what modifications have been made. As of today, the SBA has not fully implemented key elements of a disaster planning program, such as disaster simulation, office space requirement, and proper staffing. It is also unclear if the backlog problem has been corrected or if it will reoccur in future large-scale disasters.

Today we will hear from small business owners and state officials who have seen firsthand the successes and failures under both the old and new systems. They will give their insight about the disaster program and what needs to be done so it better serves our nation's small businesses.

Small businesses are the largest job creators and spur economy growth. There is no question that the Gulf region is still rebuilding and that entrepreneurs will play a critical role in that process.

If we want businesses to make a full recovery, then we must have a well-equipped disaster loan program. It is crucial that the federal government does not fail entrepreneurs the next time there is a disaster.

I look forward to hearing the testimony of today's witnesses. And now I recognize ranking member Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you very much, Chairwoman. And I want to thank Chairwoman Velázquez for holding this important hearing. I also want to thank the witnesses that we will hear from shortly and look forward to their testimony as well.

As has been well-documented, the unexpected nature and level of destruction caused by Hurricane Katrina was unprecedented. It is estimated that Hurricanes Katrina, Rita, and Wilma claimed 1,400 lives and caused more than $80 billion in property damage.

The Small Business Administration, the SBA, was tasked with the difficult job of providing disaster loans to the affected individuals and businesses throughout the Gulf Coast. In response to the hurricanes and their devastation, the SBA provided more than 148,000 disaster assistance loans, totaling more than $9.7 billion in aid to the individuals and businesses devastated by these storms.

After the storms had passed, it became clear that the SBA was processing the disaster loans far too slowly. An average loan application took 74 days to process, instead of the agency's usual processing goal of about 3 weeks. The SBA severely underestimated the number of employees needed for this considerable task and failed

to provide enough office space for its employees on site. Their recruiting and training of emergency employees also proved to be a considerable obstacle for the SBA. Lastly, the Small Business Administration failed to spread the word to the residents and business owners of the Gulf Coast that the agency was there to help them.

Amid the chaos and devastation caused by the storms and the alphabet soup of federal agencies there to help, it was critically important for the SBA to vigorously communicate what the agency is and how it could help through the services it provides.

Some homeowners and small business owners did not receive the help they could have because they were unaware of the help the SBA could have provided. That is just not acceptable.

While no one can say that the federal government's response to Hurricane Katrina is adequate, it is important to point out that the men and women in the SBA and the other agencies who went to the Gulf Coast faced an extremely difficult task under very challenging circumstances. This was one of the most powerful storms ever to hit our nation. And its destruction was compounded by the geographical uniqueness of New Orleans, the fact that it sits below sea level.

The point of this hearing is not to assign blame for the inadequate response. That has already been done by others. We are here today to look for ways to ensure that in the unfortunate event of a future disaster, the SBA will be better prepared and equipped to respond to America's need for help.

I would like to commend Administrator Preston for the efforts he has made to significantly improve disaster loan processing. I am sure it isn't lost on anyone here that the administrator was not serving in his current capacity during the Summer of 2005. That was a year and a half ago. And he has been on the job for about seven months.

I would also like to thank our witnesses, who have traveled all the way from Louisiana and Mississippi, for taking the time to join us today. It is important to listen to the stories of those who sought help from the SBA in the aftermath of Katrina to determine how we may better improve the agency as we move forward.

Again, I want to thank you, Chairwoman, for holding this important hearing. And I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

And now I would like to recognize Mr. Braley for an opening statement.

STATEMENT OF MR. BRALEY

Mr. BRALEY. Thank you, Madam Chairwoman, Ranking Member Chabot. And thank you for holding this hearing.

It is about time we take a hard, long look at this nation's response to the Gulf Coast hurricanes, particularly focused on how small businesses have fared since then. We have a lot to learn. And hopefully today we will learn some of these things that will help us be better prepared next time.

Tens of thousands of businesses were destroyed by the Gulf Coast hurricanes. And the economic damages have been estimated at well over $150 billion. That region's small businesses have de-

pended upon the Small Business Administration to help them regroup from this catastrophe. More than a year later, however, many of them are still dependent upon the Small Business Administration. In fact, many of them are still waiting in line at the SBA. That line needs to move a little faster.

By looking at this country's response to the big disasters, we can also gauge how effective we are at responding to the disasters of less magnitude. Where I am from in Iowa, we have ice storms, something you are a little familiar with today, flooding, and tornadoes. Thankfully, they have not reached Katrina proportions. However, these disasters are major to the people whose lives are impacted by them and the substantive impacts on the communities and the small businesses in those areas. And I want to make sure this administration is prepared.

Today I look forward to hearing that the Small Business Administration recognizes its shortfalls from the Gulf Coast response, is learning some lessons, and is applying those lessons in its disaster response efforts nationwide. This country's small businesses need to know that when disaster strikes, this administration will not abandon them.

Thank you, Madam Chairwoman. And thank you to our speakers for enlightening us today. I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you.

The Chair asks if there is any other member who wishes to be recognized for an opening statement.

Mr. CHABOT. Madam Chairwoman?

Chairwoman VELÁZQUEZ. Yes?

Mr. CHABOT. On our side, our members have indicated they would withhold any opening statements in order to get to the witnesses as soon as possible.

Chairwoman VELÁZQUEZ. Okay. Yes. Without objection, I will recognize the gentleman from Louisiana, Mr. Jefferson.

STATEMENT OF MR. JEFFERSON

Mr. JEFFERSON. Thank you, Madam Chair. I will be very brief in my remarks.

I am very pleased to see my compare in arms here. Mr. Melancon is one because we fought a lonely battle down our way with the SBA and so many other federal agencies to get help to our people. I am sure Mr. Baker will show up here in a minute, but our districts adjoin each other. We have impaired in a common suffering.

I have looked through the testimony, some of the testimony, that will be rendered today. And I will get to the questions about it a little later. But what has been most important to our people in the recovery is you are getting things done quickly and not looking at this as a normal set of circumstances or a normal disaster. This is one where when the SBA sits down and tries to figure out how it gets paid back, in looking at it in the normal way, it is awfully tough because you can't decide. The customers aren't there. You don't know when they are going to return. It is hard to make projections.

And, as you have said, Madam Chair, sometimes in this whole processing of things, we need to just say, "Well, it's time to think about how we get grants down here to people, as opposed to how

we make loans in the regular way." We look for the normal indicia of ability to pay back.

It is very tough if you are going to have recovery without any people there to get businesses set up so they can start working and get themselves back in shape and have the normal processes in place.

We have been very concerned about the slow process of getting loans out. And I know it is going to be talked to you about the process of integrating various aspects of agencies' work and relying on the private sector and all of that. But I think for us, all the rules about how we might make things work more efficiently is trumped by the idea of how do we get things done so that people can have a chance to recover.

And so it is not just a matter of how we bring all the resources together and how we better apply them as how we actually get a product out, how we get things done, how we get people back in shape to come back to work, jobs to come back to the—and the other part of it, of course, is how we get our small business people as the major part of this recovery to make sure that they are the ones who are leading the recovery effort who are bringing back the employees who are making this thing work.

So I look forward to the testimony of all of the witnesses today. And I thank you, Madam Chair, for letting me make brief remarks.

Chairwoman VELÁZQUEZ. Thank you.

And now I will recognize Congressman Melancon from Louisiana, who has worked closely with this Committee in addressing problems on the disaster assistant program. My colleague, you have five minutes for your testimony.

STATEMENT OF THE HONORABLE CHARLIE MELANCON, CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES

Mr. MELANCON. Good morning. Thank you, Chairwoman Velázquez, Right Ranking Member Chabot. I want to thank you for the opportunity to speak about the SBA's response to Hurricanes Rita and Katrina.

My Congressional district spans the destructive path of both of these storms. Early in the morning of August 29th, 2005, Hurricane Katrina made landfall in South Plaquemines Parish. Subsequent levee breeches flooded much of Plaquemines and St. Bernard Parishes along with the City of New Orleans and the communities of Lafitte and Grand Isle. Less than one month later, Hurricane Rita made landfall in southwest Louisiana, with much of the coastal area already affected by Katrina receiving yet another unneeded and damaging blow, and then creating storm surges though all the coastal Louisiana parishes and into east Texas.

Today's hearing focuses on one of many facets of federal government failures, both before and after these storms. In the weeks and months following the storms, critical small business grant and loan assistance was delayed. Our economy continues to suffer as a result.

We may never be able to pinpoint an exact number of jobs lost to the inaction or the lack of assistance. However, I have witnessed many instances where small business owners have been frustrated to the point of giving up on the SBA. And I hope that we can work

together to change the negative perception that currently exists towards SBA's programs and the entire federal response.

As time moves on, we are beginning to quantify some of the missed opportunities following the 2005 hurricane season. For instance, 9 months after Katrina and Rita, in May of 2006, the SBA had disbursed only 14 percent of the $9.7 billion in loan dollars that were approved for disaster assistance. And even today, my numbers show that only 38 percent of the loan applications had been approved and funded. After Hurricane Andrew, over 60 percent were approved.

Immediately following the storms, an understaffed, poorly managed, and poorly trained, particularly in customer service, administration effectively discouraged small business owners from applying for business or home loans.

In December 2005, the backlog for loan verification and processing on average exceeded one and a half months. In most instances, the wait was much longer. Inadequate and inaccurate communication from SBA employees kept many customers from finishing applications. Many clients lost paper business records in the storms, creating an additional hurdle for SBA employees that were not able to adjust for these storm-inflicted realities.

How do we make SBA better? One of the first issues that must be addressed is staffing. SBA's unwillingness to immediately and effectively delegate responsibility to qualified lenders created a critical choke point in loan disbursements following the hurricanes.

To address this issue, today I am joining with my colleague Congressman Richard Baker to introduce the Small Business Disaster Response and Loan Improvements Act of 2007. This legislation will improve upon the less successful gulf opportunity loan pilot program administered by the SBA. It would allow for larger maximum loan amounts and a more streamlined application process that will be administered by the SBA-approved lenders.

Before staffing, Congress must take a close look at the laws and regulations that currently govern the SBA's disaster loan programs. SBA's unwillingness or inability to provide maximum flexibility in the administration of disaster loans continues to hamper recovery efforts in Louisiana, specifically homegrown and family-run businesses, such as those in the shrimp industry that we have in south Louisiana. They often do not fit the mold of the current SBA loan.

And in the resourceful, self-sufficient economy in south Louisiana, oftentimes the best and only mechanic or towboat for these shrimping vessels are the owners themselves and/or family members and fellow shrimpers. However, the SBA would not allow payments to family members or fellow shrimpers for the expense of removing the vessels from dry land. The SBA would loan the money for mechanical repair, hull repair, net repair, and acquire the needed fuel and supplies to begin the shrimping season, but it doesn't do the owner much good if he or she can't get the vessel back into the water. Community express loans should be allowed eligibility for commercial fishermen to go back to work.

In addition, SBA's current physical disaster loan program allows for a waiver of the $1.5 million loan limit. This waiver is reserved for businesses that are determined to be a major source of employ-

ment before the disaster. However, in a disaster the magnitude of Katrina and Rita, the SBA should allow for waivers for businesses that will be a major source of employment following the storm.

I am aware of instances where existing business owners could greatly expanded or refocus existing businesses to meet strong post-storm demand. However, because these opportunities did not fit the normal SBA disaster rules, they were turned away, causing untold hardship on many businesses and subsequent reemployment and the new employment losses.

A final recommendation for making the current and future disaster recoveries better would be to provide more flexibility for loan use in conjunction with the Homeowners Assistance Grants. Homeowners in south Louisiana who took the initiative to apply for SBA loans following the hurricanes are now being penalized for this action. If these homeowners qualify for the Louisiana road home rebuilding grants, then they must use the road home money to pay down the SBA loan first. This leaves these storm victims with a larger financial burden that they would not have otherwise and no better off, if not worse off, than before they applied for the SBA loan.

In closing, I want to thank you, Chairwoman Velázquez and Ranking Member Chabot and the Committee, for the opportunity to testify this morning. I look forward to working with you and all of our other colleagues to enact common sense, meaningful reform to current SBA disaster loan programs. Thank you.

[The prepared statement of Mr. Melancon may be found in the Appendix, on page 59.]

Chairwoman VELÁZQUEZ. I want to thank you for your testimony, your passion, and I just want for you to make sure that we do understand your pain and the human suffering in the Gulf Coast region. The intent of this Committee in today's hearing is to see where we are, to make sure that this doesn't happen again, and if there is a need to fix through legislative actions, we will do that. And we will continue to work with you to see that we can bring relief to the small business people that are suffering still in the Gulf Coast region.

With that, I will ask if the members have any questions for—

Mr. CHABOT. Madam Chairwoman?

Chairwoman VELÁZQUEZ. Yes?

Mr. CHABOT. Just a brief comment. I think apparently Mr. Baker was affected by the inclement weather today and is on his way here but running late. It is good to see this work in a bipartisan manner, especially with those that have been it most directly, the folks in the area. So I would commend both of you for working together to put together legislation in a bipartisan manner that will help to assist the people who have suffered this terrible disaster in your area.

I yield back.

Chairwoman VELÁZQUEZ. I guess that today is a reminder of Mother Nature. And this is why we have to make sure that we are ready for the event of any other future disaster.

I would like to thank the Congressman. We will now proceed with the second panel. I will ask Mr. Steven Preston, Adminis-

trator of SBA; Mr. William Shear, the Director of Financial Markets and Community Investment, to please take your seats.

And, to the members, please, I want you to know that we have a third panel with witnesses who are coming here from the Gulf Coast region. And given the weather conditions and everything that they have gone through, I will ask for you to please stay here. And if you have any other commitments, please come back so that we could listen to their stories.

Good morning, Mr. Preston and Mr. Shear. I would like to welcome the Administrator. And he will be recognized for five minutes for your testimony. And I just want for you to know that I have noticed the fact that you have been before this Committee twice this year. And I think that is the most of any other Administrator.

Mr. PRESTON. Thank you very much. Would you like me to begin or Mr. Shear? Okay. Great.

STATEMENT OF STEVEN C. PRESTON, ADMINISTRATOR. U.S. SMALL BUSINESS ADMINISTRATION; ACCOMPANIED BY WILLIAM B. SHEAR, DIRECTOR OF FINANCIAL MARKETS AND COMMUNITY INVESTMENT, GOVERNMENT ACCOUNTING OFFICE

Mr. PRESTON. Good morning, Chairwoman Velázquez, Ranking Member Chabot, other members of the Committee. Thank you for inviting me to discuss the GAO report and what the SBA has done to re-engineer our disaster assistance program. I would also like to thank Bill Shear and his team at GAO for the time and effort they put into this report.

My written statement addresses GAO's recommendations. SBA concurs with the primary recommendations in the report. We have already made some progress in addressing them. This morning I would like to talk a bit more about what we have done to re-engineer the disaster assistance program since Hurricanes Katrina, Rita, and Wilma hit the Gulf Coast.

While we concur with the assessment of SBA's past problems, I am here to tell you today that since last summer, we have made dramatic progress in reforming SBA's disaster program and attained truly impressive results.

Like so many other Americans, in 2005 I watched the images of what was happening in the Gulf. I prayed for the people. I sent funds. And I wished I could do more. And, sure enough, I got an opportunity to do that when I received the offer to come here to the SBA last summer.

Since then, I have visited the region many times, meeting with disaster employees, business owners, homeowners, as well as state and local officials to hear about their experiences and understand their issues.

Today 98 percent of the approved borrowers have received all of their money, some of their money, or chosen not to borrow. Of the 7 billion in approved disaster loans that people have chosen to take, we have over $5 billion at work rebuilding homes and businesses in the Gulf. Approximately 2 billion in additional commitments are available to be disbursed to about 23,000 borrowers, 20,000 of whom have begun receiving disbursements. Many of

these people, we believe, are experiencing a number of outside challenges, resulting in delays in their ability to draw down funds.

I came to the agency 11 months after Katrina. And in that time, the agency had processed over 420,000 loan applications and had worked very hard to address the unprecedented nature of this disaster by expanding capacity in three areas: information systems, people, and facilities. And while the loan approval process was largely completed, SBA at that point faced a very different challenge: closing loans and distributing funds. Over 120,000 borrowers were still in the process, representing over $7 billion worth of loan commitments. So we quickly dug into the issues to understand why.

First we listened to our customers. Next we listened to our employees to get their perspective. And then we dug deep into the operational processes, where we found a number of issues leading to high error rates, steep backlogs, and decision-making bottlenecks.

With this information, we began to re-engineer the program to address them. We invested thousands of man-hours and launched a new process that was complex to implement but simple to conceive. We called over 90,000 borrowers to do 2 things: introduce a new process where they would have a single relationship manager to help them to complete paperwork accurately, eliminate confusion, eliminate rework and frustration, and to ensure that we understood their status so that we could provide the right kind of support.

We also moved 1,300 staff and changed our entire work flow from a production line with inadequate coordination between different functions to 15-person integrated teams, where each function is represented with authority and competency to make decisions, ensure accountability, and manage for results.

This outreach enabled us to build a database to track the issues our customers have and to address them better. One thing this database showed us is that our customers were having difficulties obtaining records from their local clerks' offices. So SBA placed employees in the Records Office in Orleans Parish, and we have reached out to other parishes and counties across the region, offering the same support.

Because we now have regular conversations with our customers, we can also informally poll our case managers on their issues. Our people have become an advocate for the borrowers that they serve. And we are now able to connect a loan and a document to a face and a story.

One of the major challenges surmounted in this process was our loan modification process. This summer we had a backlog of 50 to 80 thousand loan modifications, with an average age of over 70 days. This was a major cause of delays in disbursements. Today, with about 4,000 modifications in process, the average age of the backlog is 8 days.

We are seeing benefit of the new processes in the more recent disasters, where we see 98 percent of our loan approvals being completed within 14 to 16 days, which I have been seeing most recently after my trip last week to Florida taking place as well.

Do we still have hurdles? Absolutely. We are still improving the process. I still hear directly from customers. I give my e-mail in public forums all the time. So I know directly. But the feedback we're getting from local leaders; legislators; employees; and, most importantly, the disaster victims we are striving to serve has been very positive.

We continue to focus on better training for our employees so they can serve better. We continue to improve the IT infrastructure. We have put metrics and mechanisms in place to identify issues and address them as they arrive. But, most importantly, we have put methods in place for greater interaction with our customers.

In the coming months, our efforts are going to be focused on a number of activities: first, ensuring that we are responding and providing the states with information to support their grant programs; second, completing the process reengineering and continuing to improve automation to ensure that it is fully in place for future disasters; third, finalizing surge plans so that we have clear, well-documented road maps and implementation models in place based on the size and the nature of the catastrophe; and, finally, exploring ways to work with the private sector to provide more efficient and effective support in certain circumstances.

The 2005 hurricanes overwhelmed disaster response at all levels. Certainly we were no exception. Our people worked very hard, often around the clock, to try to help the disaster victims whose lives were torn apart. But these are not the same people who have since fixed the process and are today enabling the SBA to play its role in rebuilding the Gulf and improving our ability to respond in the future. And I am very thankful for their dedication and their resolve.

Thank you.

[The prepared statement of Mr. Preston may be found in the Appendix, on page 66.]

Chairwoman VELÁZQUEZ. Thank you Administrator.

And now we will recognize Mr. Shear. He will be presenting the report from the General Accounting Office. Mr. Shear is the Director of Financial Markets and Community Investment from the Government Accountability Office. Welcome.

STATEMENT OF WILLIAM B. SHEAR, DIRECTOR OF FINANCIAL MARKETS AND COMMUNITY INVESTMENT, GOVERNMENT ACCOUNTING OFFICE

Mr. SHEAR. Thank you. Madam Chairwoman, Representative Chabot, members of the Committee, it is a pleasure to be here this morning to discuss SBA's response to the 2005 Gulf Coast hurricanes.

My testimony is based on two reports that we issued under the Comptroller General's authority. The first report, which was release in July 2006, discussed SBA's plan for and implementation of the disaster credit management system called DCMS, which the agency uses to process disaster loan applications.

The second report, which is being released today, discusses SBA's disaster planning for other logistical areas, such as hiring and training a capable workforce and acquiring necessary office space.

As we all know too well, the Gulf Coast hurricanes were truly catastrophic. They resulted in extensive property damage, human suffering, and loss of life. SBA's Office of Disaster Assistance makes loans to households to repair or replace damaged homes and personal property and for businesses to help with physical damage and economic losses. SBA faced unprecedented demand for its disaster loan services as a result of the hurricanes.

Today I will discuss first challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance; second, factors that contributed to these challenges; and, third, steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

In summary, we identified several system and logistical challenges that SBA experienced in responding to the Gulf Coast hurricanes that undermine the agency's ability to provide timely disaster assistance to victims. For example the limited capacity of DCMS restricted the number of staff who could access the system at any one time to process disaster loan applications.

In addition, SBA staff who could access DCMS initially encountered multiple system outages and slow response times in completing loan processing tasks. As of late May 2006, SBA processed disaster loan applications on average in about 74 days, compared with its goal of within 21 days.

While the large volume of disaster loan applications at SBA we see clearly affected its capacity to provide timely disaster assistance to victims, we found that the absence of a comprehensive planning process beforehand limited the agency's initial response.

For example, in designing the capacity of DCMS, SBA primarily relied on historical data, such as the number of loan applications that the agency received after the 1994 Northridge, California earthquake.

SBA did not consider disaster scenarios that were more severe or used the information available from disaster simulations or catastrophe models used by insurance companies to estimate disaster losses. SBA also did not adequately monitor the performance of a DCMS contractor or completely stress test the system prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning prior to the Gulf Coast hurricanes for other logistical areas, such as workforce planning or space acquisition.

As discussed by the SBA administrator, in the aftermath of the Gulf Coast hurricanes, SBA has planned or initiated several measures that SBA, the administrator, and other SBA officials said would enhance the agency's capacity to respond to future disasters.

For example, SBA has completed an expansion of DCMS' user capacity to support a minimum of 8,000 concurrent users as compared with just 1,500 for the Gulf Coast hurricanes.

We have made recommendations to SBA in both our July 2006 report and in a report we are issuing today. For example, we recommended that SBA, one, reassess DCMS' maximum user capacity in light of lessons learned from the Gulf Coast hurricanes, information available from catastrophe with modeling firms and disaster simulations, and related cost considerations; two, strengthen its DCMS contractor oversight and further stress test the system; three, analyze the disaster loan process and identify ways to more

efficiently process loan applications, including an evaluation of the feasibility of implementing a secure Internet-based application feature for home loan applicants; and, four, develop time frames for complete and key elements of its disaster management plan.

We are encouraged by SBA's agreement with these recommendations. We hope that the agency can move forward to develop and implement a comprehensive disaster management plan that will help SBA respond to future disasters.

It is an honor to present our work before this Committee. I would be happy to answer any questions from Committee members.

[The prepared statement of Mr. Shear may be found in the Appendix, on page 72.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Shear.

Katrina and Rita, both of them were monumental disasters. There is no doubt in our minds. And it netted a monumental response from the federal government, particularly the disaster loan program.

Mr. Shear, given everything that you have reviewed in creating your report and in reference to what the SBA has done in response to the General Accounting Office recommendations, are you comfortable that the SBA is now prepared to meet the challenges of another disaster on the scale of the 2005 Gulf Coast hurricanes?

Mr. SHEAR. There are two parts to my answer to your question. One would be a matter of as we referred to disaster simulations and catastrophe risk modeling, that one of the first steps that is needed is an evaluation of the risk exposure of the agency in terms of meeting its needs to disasters. We are not quite sure how the agency is going to use those tools and the lessons from the Gulf Coast hurricanes to evaluate its risk exposure.

The second part to my answer is that if it is a matter of having the capacity to meet another series of Gulf Coast hurricanes, we know they have expanded their capacity to DCMS and they have initiated some other steps.

The answer is a little bit that we don't know yet. It is kind of too early for us to know yet as far as whether they have stress tested DCMS and taken other actions to ensure that they could meet the challenges of another catastrophe of this magnitude.

Chairwoman VELÁZQUEZ. Mr. Shear, is your answer a no?

Mr. SHEAR. The answer is that we are not sure. We are not sure if there was another hurricane or another disaster of this magnitude. And so the answer is we are not sure on that.

As I say, the first part is we think a fuller risk kind of evaluation of risk exposure is needed.

Chairwoman VELÁZQUEZ. Okay. Thank you.

Mr. Shear, again, we have heard how the SBA has implemented changes to improve its disaster assistance programs. Some of these changes have come as a result of your recommendations while others were initiated by SBA. To what extent are these changes premised or predicated on a comprehensive assessment of the agency's risks, including a disaster?

Mr. SHEAR. Okay. I will add to what I called my first part to the first question. It is not clear to us based on our interactions with SBA. And they have raised questions a number of times, "How could we use catastrophe risk models? How could we use disaster

simulations?" And it has been a constructive dialogue, but, nonetheless, we are not quite sure how far along the agency is in really evaluating its exposure to its risk.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Preston, I would like you to provide me with specific time frames for when the SBA will have implemented the following elements: formed a comprehensive written disaster plan that integrates the agency's needs in a variety of disaster situations with the results of disaster simulations and catastrophic modeling; completed cross-training agency staff to provide backup support for the disaster assistance function; completed stress testing to the DCMS system at maximum use or capacity. What is your time frame when these key elements of a disaster plan will be completed?

Mr. PRESTON. Well, you and I have not discussed this previously. So I think we should work together to determine those time lines.

Now, let me tell you we have had conversations about the need for time lines. This agency in certainly the six months, seven months I have been here manages extensively with time lines. We could have never achieved these results without daily time lines on achievables in every aspect of our operation.

We are currently—and this is in support of GAO's comment—evaluating time lines for putting in place a much broader integrated play book. The protocols exist internally. The institutional knowledge, especially after the last year and a half, exist internally. What we are doing now is going through the process of working through getting it documented and having something that will serve us in three or four years.

Chairwoman VELÁZQUEZ. Mr. Preston, my concern right now is that we are six months into the next hurricane season, summer. And based on your answer, then we can conclude that you still do not have a written plan, disaster plan, based on the key elements that were recommended by the General Accounting Office.

Mr. PRESTON. What I would tell you is we have an ability to respond to disasters today, whether they be hurricanes or earthquakes, like never before. We have a system capacity that is about four times what we needed for Hurricane Katrina. And indications are that it could expand beyond that.

We have facilities in place right now. We have an extremely large existing workforce, recently trained workforce, that is no longer with us that we could bring back in, and reserve corps. We have relationships throughout the federal government that are dramatically improved. And our coordination has improved.

Now, what I don't have is all of that documented in a play book for you. If something hit tomorrow—

Chairwoman VELÁZQUEZ. Well, it is not only for us. It is just for your agency and for everyone. We saw. And we were here. We saw the disarray of the agency, the confusion, not only in the Gulf Coast region, where people were suffering and lost their properties and didn't know where to go and then the disarray that was going on at the agency because DCMS wasn't working at capacity because the training of the people was not in place because you didn't have the manpower on the ground in the region.

It is not only a plan for us, the Committee. It is a plan for the agency to be effective. And it is the plan that has to be predicated

on the simulations and the kind of needs based on whatever scale of disaster we will be confronted.

When you mention now that you are going to have 8,000 capacity on the DCMS, what do you base that number on?

Mr. PRESTON. Extensive stress testing by IBM, who is the contractor. And the stress testing that they did to the system went up to the 8,000 level. And it had indicated that there was significant additional capacity above that.

Chairwoman VELÁZQUEZ. Mr. Shear, do you really think that 8,000 will handle a large-scale disaster?

Mr. SHEAR. There is a trade-off between capacity and how much we have to worry about could the SBA serve victims of another major disaster? The question becomes, well, SBA is in a better position now, certainly, with 8,000, than it was before. It is relative. Whether it could meet its goal of 21 days to process loan applications, it would be hard to say.

In terms of the 8,000, I certainly am encouraged if, in fact, IBM has done the stress testing to ensure that there are 8,000 concurrent users. But this has to be a part of a broader framework of not only risk evaluation but how do the different tools fit together. The reserve corps, office space, and other elements of technology really have to fit together to see, you know, how that 8,000 would play out in that broader framework.

Chairwoman VELÁZQUEZ. Thank you.

Mr. PRESTON. Can I comment on that just for a second? Madam Chair, I am not as concerned about the 8,000. The 8,000 with 2 shifts would give us 16,000 users. And in that center, we never had even 3,000.

The issue I think is exactly what Mr. Shear mentioned, which is expanding the people, expanding the other issues. And, as I have told people, I am pretty comfortable today based on the expansive situation that we have in place. We are very well-prepared today. My concern is three or four years from now.

And if the agency shrinks in size, if our facilities shrink in size, and then we have to ramp again like we did last year, that is what we need to focus on.

Chairwoman VELÁZQUEZ. Well, let me just say—and I am going to make this statement and then move to Mr. Chabot—if 8,000 is good enough, then why do you still have unprocessed applications to this day?

Mr. Chabot?

Mr. CHABOT. Thank you very much, Madam Chairwoman.

Mr. Preston, as I mentioned in my opening statement, you are in a difficult position obviously because you have only been at the SBA now for about seven months. And this happened a year and a half ago. So you are essentially trying to fix someone else's problem. So it is a difficult situation.

But let me ask you first, has the DCMS system been tested at its 8,000-user capacity? And is the majority's concern about a full-blown test well-founded?

Mr. PRESTON. DCMS has been tested. And I would be confident that it can handle that and potentially additional, which is significantly beyond Katrina.

I would also like to say, just to your opening comment, that I know I am coming after the event, but that is one of the reasons I am here. And it is my privilege to serve.

Mr. CHABOT. Thank you.

Next, what coordination did the SBA have with other agencies, like FEMA or state and local governments?

Mr. PRESTON. Well, the day after Katrina, our district director had set up office in the state capitol. We had people very quickly. Most of our people had lost their homes coming back to work. We were meeting with small businesses very soon after that.

We have consistently had I think fairly extensive coordination with agencies, both federal and local. And where we have had problems with that coordination, up front we did have some issues in getting the applications from FEMA. There were some issues that caused a lot of applications to come to us that probably shouldn't have. And we have worked through those issues with FEMA so that it won't happen again.

Other than that, I think our coordination has been pretty extensive and continues to be.

Mr. CHABOT. Thank you.

Ten billion dollars in loans were approved, but how many were canceled? And how many loans are actually to be disbursed?

Mr. PRESTON. Okay. 3.7 billion loans have been canceled or reduced. These are people who get insurance payments, so they no longer need or are allowed to get the loans under the federal law; grants; they have access to private resources. And that is very much in line with other disasters we have seen.

About 5.1 billion has actually been disbursed. That last 1.9 is what remains to be disbursed. These are people we are ready to disburse funds to. And in many cases, these people are not ready to move forward. They don't have insurance in some cases. They can't get access to records. They have not chosen to move back into their neighborhoods in some cases, for reasons that all of you are familiar with.

So when we look at our backlogs and we look at our time lines, we are for the most part being very responsive to those people.

Mr. CHABOT. Can you tell me what the approval rate for the four 2004 Florida hurricanes was?

Mr. PRESTON. I don't have that exact percentage for you. It was 32 percent. I am sorry. I just got it.

Mr. CHABOT. Thank you.

Mr. PRESTON. I knew it was significantly lower than the current hurricane, than the 2005.

Mr. CHABOT. Right. And isn't your approval rate largely affected by the financial demographics of the area?

Mr. PRESTON. Very much so. This was in line with the Northridge earthquake. It is much higher than the 2004. It is lower than Hurricane Andrew, for example. It very much has to do with demographics.

Mr. CHABOT. Thank you.

Mr. Shear, let me turn to you for a couple of questions. Should the SBA consider contracting out disaster loan processing to other entities as they supplement to its own office? And would the SBA

have the capability of providing oversight to private loan processing contractors while still performing disaster loan processing itself?

Mr. SHEAR. It is really an excellent question. And I will answer it based on the work I am testifying on today and other work we have done at SBA. In this work, we do not evaluate the efficacy of such of including private sector partners, namely financial institutions. So we didn't look at that avenue in this work.

I will just make an observation based on a lot of work we have conducted over the last decade dealing with SBA's Office of Capital Access if that we had many concerns going back with oversight of lenders, loan monitoring, and the tools that SBA had when it delegated authority to private sector lenders. And SBA has made great improvements over the last decade in that arena.

And what I would hope is that if SBA is again, as I think the agency is planning to do to partner with private sector lenders that they will be very cognizant of the oversight structure you need when you have private sector lenders that are able to basically become a distribution mechanism for government guarantees.

Mr. CHABOT. Thank you. My final question, Mr. Shear, has the SBA been at all defensive in dealing with the GAO or have they been forthcoming about their inadequacies and willing to change to ensure an improved response for the next catastrophic disaster?

Mr. SHEAR. It is a difficult question to answer because it is kind of like it is all relative as far as different agencies. One thing I will say is that the interaction currently—and I am glad to be here with Administrator Preston—is that it has been a very constructive engagement in terms of interaction of us providing information from our evaluations that might be helpful in helping SBA get to the next level of coming up with a comprehensive plan and implementing our recommendations.

So I would certainly say that it has been very constructive. I know behind me Herb Mitchell, who through this whole trying period has been in charge of the Office of Disaster Assistance, has already been very cordial, very professional, and very constructive in our relationship with each other.

So it has been positive, what we call constructive engagement.

Mr. CHABOT. Thank you. So what I hear you saying is it is improving?

Mr. SHEAR. It has improved. And I think it certainly has the elements of what we call constructive engagement.

Mr. CHABOT. Thank you very much. I yield back.

Chairwoman VELÁZQUEZ. Now the Chair will recognize Mr. Jefferson for five minutes.

Mr. JEFFERSON. Thank you, Madam Chair Lady.

There is so much to talk about here. I thank you for the work you have done. And I know it is a big job. Mr. Preston, I guess, or either one of you — I don't know which I should ask this. There is a — we are very concerned about the training that people had who came down to make loan decisions.

We have a very limited staff, as I pointed out last week. We went in the last six years from 30 people down to 9 people. We don't

have a loan director. We don't have information to direct and a few other very key people.

Yet, when the SBA disaster relief people came down, they were to be trained by our small office. After that, the office had no real interaction with them. They went on their way.

Have you looked at the impact on the efficacy of this whole process by — this goes back to how folks may be better trained and how our office offices may better integrate with the dispensation of that work, as opposed to just kind of saying, "Hi," "Good-bye," a little training, and they go away? How do we make this thing get a small business hometown kind of a feel to it, as opposed to what we have this time around?

Mr. PRESTON. Yes. This was an issue that came up shortly after I came into the agency. We had an off-site with all of our leadership. And we are very close to completing a plan to have much better integration between the district offices and the people that come in from outside the area to help process loans.

The other issue that you address — and this is something that is being driven by people in those district offices based on what they think needs to happen. So we are getting that feedback from the field.

The other issue you mentioned, which was a big challenge we had, was training. We had to ramp up very quickly. And there were challenges on the training side. There are just no two ways about it.

And the way that we are dealing with that is two ways. Number one, we are expanding the number of people in our reserve corps that are kept up to date in training. They don't work for us. They come in several days a year for training. And then when they get deployed, they are up to speed.

The other thing as part of this field engagement plan is we are beginning to look at how to train people in the districts more effectively because they don't always have the training they need to help those people. So we are hitting it from both angles.

Mr. JEFFERSON. How many people are in the pipeline now?

Mr. PRESTON. already in the operation today we have about 2,200, which is still very large. We have a reserve corps of another 750, which is these continually trained people. And then we probably have close to another 1,000 who are no longer with us who have recently been trained.

Mr. JEFFERSON. I know I don't have much time. On the turndown rate, I mean, everything else having been looked at, the big issue is, how do folks get loans approved? And folks, 98 percent of those approved have gotten their money, but how many were turned down of the ones who applied? Have you looked at how we can improve in this area because that is really where the rubber meets the road there.

Mr. PRESTON. Yes. It is a challenge because we are a lending institution. Ultimately we want to make sure that we work with people to be able to repay.

The thing I would mention is we have very low interest rates, right now under three percent. And we can go out 30 years, which generally means for a life-sized loan, a borrower is going to have 70 to 80 percent lower monthly payments. And so we do still look for those people to be able to make that level of monthly payments because we don't want them to take on debt that they can't repay. So what I would tell you is —

Mr. JEFFERSON. What was the turn-down rate in our storm? Do you know —

Mr. PRESTON. The decline rate in your storm was 55 percent. The approval rate was 45.

Mr. JEFFERSON. Did it apply with homeowners and businesses equally or was it more in one?

Mr. PRESTON. Homeowner was about 44 or 43 percent. Businesses, which are many fewer, was a good bit over 50 percent.

Mr. JEFFERSON. What was the major reason for the turn-downs if you can just categorize it in some sort of a way?

Mr. PRESTON. The major reasons for the turn-down would have been credit history and ability to repay.

Mr. JEFFERSON. Now, the ability to repay, how did you judge that in this storm?

Mr. PRESTON. We look at ability to repay based on where they have been historically. If they have been impaired by the storm or are going to take a period of time to get back to work, we generally do not take that into account. We give people leeway for that.

Mr. JEFFERSON. Well, the big complaint has been that people are saying that it is going to take a long time to get back on their feet, a long time to get folks back home. And the agency is saying, "Well, we don't know if you are going to be able to make it."

It has nothing to do with credit history and that sort of thing. It has to do with the toughness of making a decision about how successful the business is going to be going forward given the nature of the disaster. And that is something that is a problem for us.

The last thing is, if I might, Madam Chair Lady, the banks. Many banks were clamoring to get involved here to help get these loans out. They were local banks. You talk about the idea of getting a face with an application and making sure that people are treated, you know, with courtesy and with understanding. Banks are there ready to do this. Many have already been approved by the SBA as banks they work with every day. Yet, they couldn't get fully involved.

Why don't you look at some way you can meet these concerns Mr. Shear expressed about how these banks could be monitored better and then put them in the business of helping you get these loans out, helping to make approvals?

Because years ago, 1,000 years ago, I served on a bank board. The questions used to always come up this way. When everything else was equal, you would ask somebody around the table, "Do you

know this person?" And that would be the basis many times of making the decision.

If somebody said, "Yeah, I know such and such and such, know a little bit about what he is doing," it would make some sense. This thing gets sort of moved from what is happening down on the ground until you really don't get decisions out of it. And I just want to know if we can't use our banks more effectively.

Chairwoman VELÁZQUEZ. Time expired. Now I recognize Mr. Buchanan for five minutes.

Mr. BUCHANAN. Thank you, Madam Chair.

Let me mention being the only member here on this Committee from Florida and also being very much a part of the Gulf Coast. And my wife was up at Katrina with our church. So we are very sensitive to what is going on there.

We had eight hurricanes in two years. And obviously I am very concerned about, you know, anything that borders the Gulf Coast or any of the coastal communities.

Also, my experience last year I was Chairman of the Florida Chamber and a board member. We had in our chamber 137,000 businesses. Ninety percent of those businesses were 50 employees or less and created 90 percent of the jobs in Florida.

So I guess my question is really a couple of things, really one of capacity. Thank God we didn't have many storms last year, but we had this tornado caused about $80 million worth of damage just outside of Orlando a few days ago. Normally we don't get those that time of the year, but it is capacity.

What is the underwriting criteria during SBA normal loans somewhere else, in Montana or somewhere, compared to when you have a disaster? And then my question is you might get the funding. How do you have the capacity to process those loans. You know, Florida is 18 million people. I am just looking at it from that standpoint. You look at the whole Gulf Coast. So it is a capacity issue I would like to know and underwriting criteria as well.

And then the next thing is you have offices in Jacksonville and Miami. I would like to know how those offices are functioning and how well are they staffed because, as someone mentioned, we are coming back to hurricane season June 1, but ideally most of the hurricanes seem to hit in August and September.

Thank you.

Mr. PRESTON. In terms of capacity, let me just tell you, as I mentioned, I was down last week surveying the tornado damage. Those loans are being approved within a week or two. We have gotten very good feedback from the area. Obviously, as devastating as that was, it is not a Katrina. Just I wanted to mention that.

Capacity comes in a number of ways, but it is primarily having the systems in place that can handle the volume, having the people, and having the facilities, and then having the integration with other agencies where you need to kind of interact with them. I think the Chairwoman was articulate in kind of describing kind of the broader elements of that.

On the credit side, when we do typical small business loans, we are not actually making the loan. The bank makes the loan, and we guarantee it. So the bank issues the credit criteria. They can

dip deeper into the credit pool with our guarantee, which goes anywhere between 50 and 85 percent. So they generally do go deeper.

In the disaster loan program, I would tell you we go very deep. And we look specifically at an ability to repay on a loan that is generally going to have a much smaller monthly payment. And we are really trying to press, push as hard as we can because we are trying to help people get back to work or get their homes back or whatever. So you would see us dig deeper in that program than we typically would.

Now, with respect to your question about Jacksonville and Miami, we think those offices are functioning well, but what I would tell you is in hurricane season, where we really get the most support—and this gets back a little bit to Congressman Jefferson's comment—is people coming from outside setting up multiple sites—we have five sites right now in the Orlando area, some in tents, some retirement centers. That is where most of the local horsepower comes to help people.

The district offices work with them on media and outreach and getting in touch with local chambers and that kind of thing, but a lot of the horsepower comes from outside the state when a disaster like that happens. I shouldn't say "outside the state" because we have so many reservists in Florida they are generally from inside the state, but they are not in those two district offices.

Mr. BUCHANAN. I guess one thing I wanted to understand is in a normal loan underwriting by the SBA compared to a disaster situation, what is the timing difference normally between those two situations?

Mr. PRESTON. The credit criteria or the time to get the loan?

Mr. BUCHANAN. Well, time someone comes in and makes the request to the time where they get the money.

Mr. PRESTON. Right now 98 percent of our loans are being approved within 14 days for homeowners and 16 days for businesses. We put out there a goal of 21 days, but internally we manage to do a tighter goal. In Florida, many of those are happening right now and under a week.

Mr. BUCHANAN. Thank you.

Chairwoman VELÁZQUEZ. Recognize Mr. Shuler for five minutes.

Mr. SHULER. Thank you, Madam Chairwoman.

Mr. Preston, thank you so much again for coming back and speaking in front of the panel again. We can look back at all of the decisions that were made in the past, if you will, the armchair quarterback decisions that we could possibly make of the decisions that were both wrong, lack of resources, but, going forward, what area of the agency do you feel has the largest room for improvement and/or the resources that are needed in order to accomplish the next major disaster that we could possibly have and looking forward, instead of looking back so often, as we do, we can certainly see in front of us by looking forward, instead of looking in the rear-view mirror, but we can certainly learn from the decisions that were made in the past.

What areas do you feel that would deserve the most room for improvement or the resources or the obstacles to overcome?

Mr. PRESTON. I think what we need to do is—you know, we are talking a lot about today. I think what we need to do is talk about three or four years from now in addition.

And I am concerned about the fact that today we have over 2,000 people in this operation, expansive facilities. A lot of people have been recently trained. But if over the next 3 to 5 years this operation winnows down to 800 people again or 1,000 and we have another catastrophe, we will need to look at a ramp-up again. Today ramp is less of an issue because we have a lot of trained people.

And so what we need to do in the coming months is say, "What does that ramp look like? How do you get people quickly trained? How do you get facilities quickly? And also," to Mr. Jefferson's comment, "how do you engage banks potentially to come in and help out when our capacity gets maxed out? And what as a government should we be doing internally? And what should we be doing with the private sector?" That I think is the longer-term issue that we need to address. And it is very important for us to work closely with this body in determining that. But that is where I see kind of where we still have a fair amount of work to do.

Chairwoman VELÁZQUEZ. The Chair will recognize Ms. Fallin for five minutes.

Ms. FALLIN. Thank you, Ms. Chairwoman. I appreciate that and Ranking Member.

And Administrator Preston, I appreciate you coming today. I know you took over during a very difficult time and are trying to do your very best to make this agency work to its best possible. And I also appreciate the fact that this is my first time in Congress and I have seen you twice. So you have been pretty bold to come before this Committee two different times.

I had the opportunity to serve 12 years as Lieutenant Governor of Oklahoma. And we had several different major catastrophes in Oklahoma with the Murrah Federal Building bombing, in which we had a lot of small businesses that were hurt. And, of course, we had some major tornadoes that came through Oklahoma. And I will tell you that during my years as Lieutenant Governor, the SBA has been very responsive to our small business community in the past to step forward.

And specifically I would call them the day of the disaster. And they would meet with me that day. And we would be out at a press conference the next day talking about what Oklahoma would do with the SBA to help our small businesses get back on track.

You know, sometimes in government, we do things to help business. Sometimes we do things to hurt business. My question to you today is, do you see anything from your past experience in working through a major catastrophe that we do in Congress that hampers you in your role at the SBA or processing allowances or any room for flexibility waivers? Is there anything that we can do? Are there any laws that we have put in place that impede you and your agency from serving the public to the best of their ability?

Mr. PRESTON. Thank you. I think this body has been pretty responsive. And much of that responsiveness preceded me. But the nature of disasters is unpredictable. And I know the funding of them is kind of episodic. And this body has come through with sup-

plemental funding when the agency has needed it, which has been very important.

Also, I think increasingly this body has been helpful in thinking about ways to get that support outside the agency through private sector support. And we did reach out to the private sector to an extent with some of our operations last year. And now I think we will be reaching out to talk to the bank sector as well.

What I would say is to the extent that we can continue to have a constructive dialogue and that we can continue to look creatively at how best to handle a disaster that hits with a fury in a scale that is just something—you know, it is very difficult to have 4,000 people on your staff when you need 800 or 600 all the time but ultimately if something like that hits you need 4,000. So what I would ask for is to have a constructive ongoing dialogue to come up with creative responses. And that is really all I can ask.

Ms. FALLIN. Ms. Chairman, if I can just further? I would like to encourage you. I know in Oklahoma during our disasters, we always turned to the private sector, too, to help us because going from 800 to 4,000, as you suggested, is something that is quite a challenge. But any way that you could work with the private sector, especially the loans, as we have discussed earlier in processing things or identifying even private sector people that could help in time of a crisis—

Mr. PRESTON. Yes.

Ms. FALLIN. —to get your work done would be helpful.

Mr. PRESTON. Thank you.

Chairwoman VELÁZQUEZ. Mr. Braley?

Mr. BRALEY. Thank you, Madam Chairwoman.

Mr. Preston, thank you for returning and answering questions for us here today on these very important subjects. When I was talking to Congressman Melancon out in the hallway between a new panel taking its seat, one of the concerns he brought to my attention was the reverse direction that technology moved in as a part of the processing of these loan applications.

And as someone who in my business depended extensively on technology in my daily work to be able to provide services to the people that I represented in an efficient manner, one of the things that was disturbing to me about his comments was that we were going from a system that was designed to allow for the fast and orderly processing of loan applications back to a paper form of loan application processing, where people were filling out applications in pencil.

One of the things that impacts that is the agency's ability to provide access to technology in the midst of a disaster. And I am wondering whether your analysis of some of the failings of your predecessor and the administration as a whole during this crisis led you to any conclusions about how the Small Business Administration can provide greater access to technology in a crisis situation to the small business owners who are in desperate need of loan processing in a timely fashion.

Mr. PRESTON. Yes. Well, certainly, in fact, it is in our early budget, and we are working on it right now. I think over time an online application will be very important for us.

I will tell you straightforward I reallocated all of our IT resources in disaster to focus on a lot of the deeper systems issues we had because, as you have heard from Mr. Shear's report and other comments, we had a new system that was implemented just before this storm. And there are just bugs to work out. And we needed to get that thing operational.

We are focused on getting an online application in place which we think will dramatically simplify people's ability to fill it out, our ability to get data input, and our ability to be efficient responders. But you are right. It is a very important point and one that we are focused on.

Mr. BRALEY. One of the components of the GAO report talking about recommended changes, which apparently the agency is embracing, is with this new contractor dealing with technical support, software changes, and hardware upgrades. I would be interested in knowing your thoughts about how your agency approaches the concept of hardware.

As someone who has never had a desktop computer in my life and who when I had the opportunity to purchase my computer for my office here in Congress was able to get a notebook computer with remote dial-up that can allow me to access the Internet anywhere any time with battery power, have you factored that into your agency's planning on the types of technology that will be more beneficial—

Mr. PRESTON. Yes.

Mr. BRALEY. —in crisis management and response to the type of problems we have been talking about here today?

Mr. PRESTON. Yes, absolutely. You know, a great example of that is—and let me just say these systems problems had to do with major servers. And they were a different kind of system than laptops. But on the laptop side this past year, we worked very hard to upgrade the infrastructure in our district offices.

So those district offices now have personal computers that would be able to work in most cases remotely if we needed somebody, for example, in Oklahoma to help people in New Orleans. And so upgrading those components of hardware will be important in us going forward and being able to provide a much more creative response to large disasters.

Mr. BRALEY. As part of the loan application processing, did the SBA provide kiosks or other types of remote access to technology in these disaster-stricken areas, where people did not have access to their existing technology systems?

Mr. PRESTON. What we did is we had about 120 sites that people could come to meet with loan counselors to go through all of their documentation to give help filling out all of their forms. It was a very extensive effort in the field. And we still have a handful of those offices in place where people come in to ask questions.

Frequently what we find is people very understandably are distraught. This is a somewhat complicated process getting another home loan. And by having on-site locations where people can go to and sit with a counselor is very, very helpful.

Mr. BRALEY. Thank you.

Mr. Shear, I am looking specifically at page 8 of your remarks dealing with SBA steps that have been taken to prepare better for

future disasters. So much of the first portion of that section of your report deals with the areas of technology and contracting, which happens to be the subcommittee I am chairing on this Committee.

Do you have any suggestions for further oversight that need to be done to address some of the concerns that have been identified and make sure that the SBA is moving forward in a direction of responsive management of those issues so that we are not back here in the future discussing them?

Mr. SHEAR. I greatly appreciate that question. One of the roles we often play is when we are asked to go back and look at what progress has an agency made. And I hope what is clear from not only page 8 of the statement but from our testimony, we think technology can be a large part of the solution, assessment of the risk exposure.

But one of the situations here that was very different than when you have localized flooding or weather problems is the size of the disaster and how do you come up with a scaleable plan. And there can be certain efficiencies when you deal with very large catastrophes that can be addressed.

And even the problems with saying how many loan processing people do you need, to what degree do you have to be transferring from a paper system into an automated system back into a paper system, all the things that occurred over this period. If you are really trying to reach with the largest disasters, even an Internet-type function, which reduces the amount of paperwork, you know, they were scanning in documents, things like that, this can be a big part of the solution. And it would be something that certainly we would be more than pleased to have serve this Committee and your subcommittee if you asked us to in terms of following up on these initiatives.

Mr. BRALEY. Thank you. I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Mr. Gohmert?

Mr. GOHMERT. Thank you, Madam Chairman. And I do appreciate you all being here and testifying.

I would like to follow up on something that came up earlier. And that is with regard to the approval rates for applications for assistance from the 2005 Gulf Coast hurricanes. You had mentioned, Mr. Preston, that the approval rate was around 45 percent. I was wondering since we had different states hit, we had, of course, Louisiana, Alabama, Mississippi, and then my own state in east Texas, do you know what those approval rates were as broken down by states?

Mr. PRESTON. I don't have those breakouts here, but we have those internally. And I could provide those to you.

Mr. GOHMERT. I am just trying to get to what would be a major reason for having, say, under Hurricane Andrew a 60 percent approval rate compared to a 45 percent rate of the 2005 hurricanes. Do you have any idea why there was such a disparity in those rates?

Mr. PRESTON. Well, it would most likely be a different ability to repay on the part of the borrower, different demographics.

Mr. GOHMERT. So you feel like there are more deadbeat borrowers in these areas needing assistance than perhaps after Andrew?

Mr. PRESTON. First of all, I certainly wouldn't use a term like that. And the other thing that I think is important to understand is many of these people who come to us have to come through us before they can get a FEMA grant. Okay? So they have to come through our process. Many of them don't even want a loan. So I think that is important. Okay?

So they come to our process before we send them to FEMA. In some cases, if they can't repay, our view is we should not saddle somebody with a very large piece of debt that they can't repay. Just that is—

Mr. GOHMERT. That goes without saying, but sure. You are not assisting them if you are loaning them money that is just going to take them into—

Mr. PRESTON. That is right. And if you are lending them the money that is substantially easier to repay, as I said, we will go out 30 years. We have very low interest rates. Often this is 70 to 80 percent below a typical amortization.

Mr. GOHMERT. Right. But, here again, those are the same concerns you would have had, not you personally but the indefinite you, speaking of this, with Andrew.

Mr. PRESTON. Also in Andrew, the amounts were much lower. They were significantly lower. The loan amounts were significantly lower, which generally means people had much more insurance or the damage wasn't as much.

Mr. GOHMERT. Okay. That is helpful.

Well, I am also curious. You know, we are aware that so much of the damage in Louisiana was caused by the levee flooding. And so much of the area adversely affected so tragically was actually below floodplain. I didn't know if that might have been a factor because I know in east Texas when a river floods, we get all of these federal agents running in and saying, "This is now wetlands. You can't build. You can't do anything on it."

I didn't hear anybody running into New Orleans and saying, "These are all now duct blinds. And you are not going to be able to rebuild or improve." Did that come into consideration at all, areas that may be in flood plains?

Mr. PRESTON. The biggest issue with respect to floodplain areas I think really relates to the 23,000 people we still have in the process, which is are they ready to rebuild? Have they gotten building permits?

Generally people have guidance on this, but I know there are a couple of areas where people are concerned that the elevation requirements may raise, I think in two zip codes right now. So there are people that are withholding decisions based on some of those issues, but that does not come into the credit decision.

Mr. GOHMERT. When you say there are still 23,000 people in the system, are these 23,000 applicants still waiting for action?

Mr. PRESTON. These 23,000 applicants, 20,000 of whom have already begun receiving disbursements. We are waiting in most cases for feedback from them on how they want to proceed.

Mr. GOHMERT. So 20,000 have gotten letters saying—

Mr. PRESTON. They don't get letters. We talk to them.

Mr. GOHMERT. Okay.

Mr. PRESTON. They get letters, you know, obviously documenting these things.

Mr. GOHMERT. So according to your files, the ball is in their court? You are waiting for them to respond?

Mr. PRESTON. I have a record on every one of those 23,000 people that shows what we are waiting for or what they are waiting for. This is a new process we kicked off five months ago so that we know status. I have got data that shows me all of that.

Generally what is happening is many people are waiting to decide what to do. What you have to understand is we provide people reconstruction loans. If somebody hasn't started reconstructing their home because they can't find a contractor, they haven't decided to move back in, or whatever reason, we are not providing the money unless they have got a use for that money.

Mr. GOHMERT. All right. Thank you. And I do acknowledge and realize you were not in this current position when the hurricanes hit. A lot of cars have seat warmers. Apparently yours was really hot when you came into it, but we appreciate your work.

Mr. PRESTON. Also I do want to highlight, though, that the people in this department that were in the seat at that point are the same ones who have worked to re-engineer this process and take it forward. And they have stuck through it. We have people who have been in this operation many years who will help take it forward. I think they have learned a lot, and they have grown a lot.

Mr. GOHMERT. Thank you. And thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. González?

Mr. GONZÁLEZ. Thank you very much, Madam Chairwoman. And welcome back, Administrator Preston. We do appreciate the effort that you display. Thank you, Mr. Shear, in, of course, the fine work that you do.

I am just going to have a couple of observations and try to figure out what we are really dealing with here today in some of the testimony that is anticipated later today.

It seems to me Mr. Shear and from your viewpoint that there is no agency or department in the federal government that has received a passing grade for the manner in which they responded to Katrina and Rita. Is that a fair statement? I mean, if you look at FEMA. I mean, just go down the list. Do you know of any that basically passed the test in adequate response?

Mr. SHEAR. We have devoted a very large effort to looking at Hurricane Katrina and the aftermath involving multiple agencies. So we at GAO are looking across the board. And certainly there are shortcomings in leadership and execution involving a number of agencies, including FEMA, including the Small Business Administration.

We have a report we call a capping report that we kind of issued halfway through this work last summer where we do know some of the kind of better practices of agencies that were well-equipped to adjust to the demands created by Hurricane Katrina: The Coast Guard, Social Security to some degree, even as federal workers the financial center that issues our paycheck, that they were able to make adjustments based on really sound strategic planning to respond. So we do have some examples, but we certainly have many

examples of what didn't work well in responding to Hurricane Katrina.

Mr. GONZÁLEZ. And I appreciate the guidance that you give us because many times it does have to come from outside the agency or the department, but much of this, of course, is just the very scope of Katrina, something that has never been experienced or nearly never experienced in the United States. And I want to be fair to SBA and everyone else.

So we have yesterday, when the disaster struck. We weren't prepared. We didn't perform well. And you have today. And I would like to focus on somewhat today.

We are going to her testimony later. And the way that some of this testimony will go, I am sure, are personal experiences and the frustration. This testimony is based on careful notes that I kept throughout this long and painful process. We are talking about the loan process. So I hope that I will be able to listen to that testimony and not be called to another hearing.

But, Mr. Preston, you have brought out a very important point. And I think we all should be very sensitive to it, whether it is SBA or any other department or agency. And that is you are concerned three or four years down the road. We have to distinguish and be able to identify that which you need on a permanent basis so that you will be able to again, as you say, ramp up, enhance, or whatever, to meet the immediate needs of a particular disaster.

Things can't be as they were in the past. Of course, you can't be at the capacity that you presently find yourselves for the obvious reasons because we are working through responding to this disaster.

Once you get that caseload through, obviously you will ramp down, but you are pointing out that you as an administrator of SBA would like to plan prospectively and figure out what you need on a permanent basis that will enable you to ramp up easily, quickly, and efficiently. Is that correct?

Mr. PRESTON. That is correct.

Mr. GONZÁLEZ. And I want to tell you that I don't think there is anyone on this Committee that will not join that effort and that we appreciate the sensitivity that you are bringing to that.

Now, I know many things went wrong and hopefully that we will learn from them. Right now it is really not about fixing the blame. I think President Clinton would say, "Let's fix the problem first. Then we will fix the blame later. And we will have plenty of time for that."

But, again, I just appreciate the efforts that both of you have demonstrated. And I would hope that we can work together so that when we hear the testimony from the other witnesses that were personally touched by this disaster, that we won't have a repeat performance in the future.

Thank you. And I yield back.

Chairwoman VELÁZQUEZ. Thank you.

And Mr. Akin?

Mr. AKIN. Thank you, Madam Chair.

In a separate hearing in a different committee, GAO mentioned, among other things, that what they had found was that they had identified 22,000 people who had cheated the government out of

money relative to Katrina. These they said were the dumb ones. These are the ones that photocopied their driver's license when they sent in the bogus claim. People didn't even live in the area.

That elevated my blood pressure a little bit. Then when I asked them off the record, "What do you think will happen to most of them?" they said, "Oh, they will keep the money and get away with it."

I guess my question is, in terms of the loans and the aspects that we are talking about in this Committee, are we putting into place practices so that we are just not wasting government money and allowing criminals to take advantage of the good-heartedness of Americans trying to take care of people who have been hurt? Because if I had anything to do with it, I would put every one of those suckers in jail for five years. Louie says I am being a little bit soft, but, anyway—

[Laughter.]

Mr. PRESTON. Would you like either?

Mr. AKIN. Either one, both. I have got enough time. You can both answer probably.

Mr. PRESTON. I think what I would say is it is probably a lot more difficult to engage in fraud in a process like ours because we have loss employees going to homes. We do title searches on property. We require a significant amount of documentation, like you would on any home financing.

So I think the challenge we have had historically is a different one, which is how do you take a relatively complex process, requires a lot of documentation, and simplify it for people. So although fraud does exist, it is not nearly as prevalent in other processes that wouldn't require as much documentation and oversight.

Mr. SHEAR. I would echo that when we do a program evaluation, such as the ones that we did here, there are certain flags we look for. Do we have to bring in our investigators that really look for fraud investigation? And those flags then go up in this program. And I think it is the nature of the program, as Mr. Preston said, that caused us to not worry about it. It is more prevalent with grant programs.

And so our resources, including our investigators, who really investigate in a different fashion, forensic investigators in our program evaluators, have focuses on FEMA and other grant programs.

Mr. AKIN. It would just seem naturally in that people have to pay back. The people that are looking for just taking money and don't want to have to pay anything back, they are going to go to other places probably. So you don't have too much trouble in that area, then.

Mr. SHEAR. No.

Mr. AKIN. Thank you very much. Thank you, Madam Chair.

Chairwoman VELÁZQUEZ. Mr. Altmire?

Mr. ALTMIRE. Thank you for being here. Mr. Preston, this is the second time I think in a couple of weeks. Thank you for coming before us.

And we have talked at length—and we are going to with the next panel as well—about all the problems. And we know what those are. I just want to say that I do have a comfort level with Mr. Preston and Mr. Shear that you understand the problems that took

place and that you want to remedy that and make sure that it doesn't happen again.

So my first question would be, because this Committee is going to continue to take a look at this situation and my Subcommittee on Oversight and Investigation is going to continue to take a look at it, how can we work together productively to: a) take care of everything that has happened in the past and resolve those issues but to make sure in the future that nothing like this ever happens again?

Mr. SHEAR. Okay. I will go ahead. I hope what becomes apparent from the testimony and our two reports is that we are very fact-based. We were looking at what happened in response to the Gulf Coast hurricanes.

But much of our attention, especially in the latter stages, even before the July report was issued, is what lessons can be learned from this. How can we work going forward? How can we be prospective in terms of thinking that we shouldn't let this happen again? How can we as an agency better prepare SBA and the Congress to serve victims of very major catastrophes, such as the one that we posed with? So I think that process is occurring and it is a matter of time will tell as far as how well that process works.

I am encouraged by what has been evolving as of late in terms of our interaction with the Small Business Administration.

Mr. PRESTON. What I would say is I am encouraged by the dialogue. I have full confidence that this Committee under Chairwoman Velázquez's leadership will stay heavily engaged with us on these issues, which I think is a very good thing. And so it really is I think maintaining that dialogue, understanding what we are trying to get to here.

I think the Committee has already acknowledged kind of where we are trying to go. But, you know, I feel very good about the support and engagement of this group in getting us to the right place.

Mr. ALTMIRE. And I do want to say again that I do get the sense that you definitely are sincere in that and you do want to work with us. And I would just say we return that and we do want to work together and hopefully improve this moving forward.

The one other issue, in the GAO report, it says that the SBA had not effectively planned for the space requirements that would be warranted by a large-scale disaster and had not developed a long-term strategy to help ensure that it could acquire necessary and suitable space in the case of an emergency, which leads to the question—I am sure you have given this some thought—what is the SBA's plan to acquire necessary and suitable space in the event that a large-scale disaster disables the agency's primary processing facilities in Fort Worth?

Mr. PRESTON. Right. We have significant additional space right now relative to our requirement. And as we look to reduce that space based on the current capacity, we are working closely with GSA to institute sort of an expansion capability. And those are discussions we are having right now.

Chairwoman VELÁZQUEZ. Mr. Sestak?

Mr. SESTAK. Thank you very much.

Mr. Preston, thanks for your time. I wanted to ask, it appears as though the demand that was so overwhelming had a lot to do

with, as you had brought up, capacity. So my question is—and to some degree, I know you have addressed it—the difficulty is predicting the capacity that is needed for the future. What are the factors that you used or are using in order to predict the needed capacity for the future?

Mr. PRESTON. Yes. I think there are a couple of different predictive tools that are relevant here. Once a disaster hits, we need to be able to very quickly implement a staffing and a facilities plan that would enable us to handle an anticipated scale.

We have internal models that look at that. And generally we do a pretty good job of anticipating the volume that comes out of that. What I would tell you is underneath that, it is much more critical to ensure that you have the underlying processes and the systems, etcetera, etcetera, to enable you to meet that scale.

So one piece is predictive. The second piece is implementation. The underlying implementation is critical.

Mr. SESTAK. The reason I asked is it seems to me that you have a different philosophical approach than what GAO has asked you to do, I think. They felt that the two primary things that needed to be done as you go into the future were good planning based on simulation. They also said that you needed time frames laid out for producing this.

When you read your testimony, it is not that you are dismissive of that, but you make a very strong statement, like you just did, that while addressing these issues, those two overall, planning, predicting for the future, as you just said, they help improve SBA's preparedness.

And then you turn immediately to the underlying processes that when something happens, are we ready? And you do have those models that predict that the characteristics of this ongoing disaster is this, so we need to do that.

It seems to me—and the hardest thing that I ever saw to do after 31 years in the military—what really hurts the most is that difference in the philosophical approach is you are backing away, it appears, from the predictive side. You looked into the insurance models, for instance, and seemed to dismiss them because they are based on 100-year types of occurrences. And, yet, that is what FEMA uses, 100 years and 500 years predictive, to come up with what flood plains are. And you can't get FEMA's loans unless sometimes you go through Small Business first in a disaster.

And so philosophically my concern is while you are able to go through your testimony and see how much you have improved based upon what happened in Katrina, is that what you should be planning upon in the future?

And so my real concern, sir, is that you have kind of nodded at GAO's predictive modeling and said, "I am going to gear up when it happens because I now know I can gear up to 2,200 employees for disaster of which 750 are my reserve disaster core" and, yet, there is really no predictive planning for the future on this.

Mr. PRESTON. Let me address that. I think what GAO came up with is a very important set of issues in planning. And I think when we talk about surge plan, what we need to be able to do is specifically with the kind of models that the GAO report suggests is be able to say—you know, Katrina was somewhat over 400,000

applications—what could happen to bring a million people to our doorstep? And we have already begun looking at insurance models.

We have talked with a number of other outside modeling groups to look at their model. We are having discussions with FEMA. So I apologize if in any way I seem dismissive of that because I think it would be very important for this conversation for us all to be able to say, "What does it mean to be able to surge to X? And does that meet the need in any kind of eventuality or are we agreeing that it wouldn't?"

So I concur with GAO's recommendation there. And we already are beginning to investigate those types of external modeling.

Mr. SESTAK. Have you put money into that modeling? I mean, modeling is pretty expensive.

Mr. PRESTON. We haven't—

Mr. SESTAK. I just know from the ones I have done in the military. I mean, I know you are talking. But if this is so important and GAO's recommendation is so important, are there millions of dollars placed or hundreds of thousands or something against, I mean, actually besides talking doing and investing in the right models?

Mr. PRESTON. Well, obviously this recommendation is relatively recent. And we're already getting out there and talking to people. So what I would tell you is no, we have not invested money in it.

But I think there are many others. As you mentioned before, FEMA looks at things. I think we need to understand what is out there, what is the cost, should we be leveraging what other people in the federal government do.

I am not sure that this kind of predictive modeling is the kind of thing that changes every month and requires a tremendous amount of rework all the time. I think it's the kind of thing where when you look at the potential events that could happen out there and get your head around that, you get a pretty good sense of the operation you are going to have to build.

Mr. SESTAK. You also just mentioned working with others. And in your testimony, you have mentioned how you are reaching out to locales in other areas. What cities specifically now, major U.S. cities, have you sat down with in order to enhance your coordination?

Mr. PRESTON. Well, we have 68 district offices that are—

Mr. SESTAK. Yes, sir. But, I mean, is there a new concerted type of effort that has now taken on to enhance the locale since that was critiqued pretty harshly in the sense of what happened in Katrina?

Mr. PRESTON. Well, my view is we did a good job of that in Katrina. So if that was heavily critiqued, I know there were some issues. But I think generally the people in our district offices are very close to local leaders, local development authorities. They have very consistent relationships with them.

Now, what has happened—and I think this may have preceded your entrance here.

Mr. SESTAK. I am sorry.

Mr. PRESTON. No, no. I just want to repeat it.

—is what we have done—and we are in the final stages of working through this—is worked through a model to integrate those district offices because they have such good local coordination more ef-

fectively with our disaster people when they get on site. And this is a comment that Mr. Jefferson had earlier.

So what I would say we have done is because we have that good local presence and good connectivity, we need to leverage that better when disaster goes into those areas.

Mr. SESTAK. My last question is, in your business intelligence tools, you have mentioned about the expanded use of performance metrics. What are they?

Mr. PRESTON. The expanded use of performance metrics have a lot to do with looking at what is happening in our operations, getting deeper into looking at cycle times so we understand, you know, what aspects of the operation are backing up or not backing up, having much deeper data on all of the individuals.

For example, we would never have known to put people in a records office if we hadn't seen data that indicated that people we having a hard time getting their records done because there was such a backlog.

Chairwoman VELÁZQUEZ. Time is up.

Mr. PRESTON. I am sorry.

Chairwoman VELÁZQUEZ. All right.

Mr. SESTAK. Thank you.

Chairwoman VELÁZQUEZ. We have other members here. But before I proceed in recognizing Mr. Jefferson, Mr. Chabot, if they have any other questions, I just would like to ask Mr. Shear what is your reaction to Mr. Preston's answer to Mr. Sestak regarding the agency investing in disaster simulation and disaster modeling?

Mr. SHEAR. It is a very important point. And we are very conscious of the cost of investing in that. But part of what we observed in our work over the period at SBA was non-attention to even what is available in the public domain that could be implemented in a pretty practical and straightforward way. But part of what we are looking for in a plan is to what degree can you leverage those resources? So we have certain ideas about how those resources can be leveraged. And it is a question of come up with a plan for a comprehensive assessment.

I want to make one observation on this because I think it is a very important one. I think what is clear is that a lot of attention has been paid to a very important issue, which is let's try to resolve issues associated with service to the Gulf Coast hurricane victims.

I mean, our hearts go out for those who have suffered through this. And certainly SBA and others should be trying to reach those victims. And certain improvements have been initiated to improve that. But I hope that there is a real emphasis on what do we do over the long haul going forward.

I just want to make one more observation. It has to do with some of the transformation plans that have been around SBA. Many of the transformation plans have a focus on the 7(a) and other major business programs that they have where over time, due to technology and changes in the marketplace, there has been greater centralization of a lot of resources. And the idea is that we are trying to get rid of redundancies.

But one of the most important things I think to recognize for all of us is that disaster planning involves contingencies. It involves in some case what you could say, backup facilities. They entail a cost.

We are not calling for SBA to waste money. But at the same token, there has to be a recognition that you need to go through some cost to be prepared. And I think that so the framework, the thought process for disaster planning and for how to run a disaster program I think has to be different than SBA's overall operation.

Chairwoman VELÁZQUEZ. In the investigation that you conducted based on the budget submission of the administration for the SBA, do you consider that the resources are there for the long-term disaster preparedness plan?

Mr. SHEAR. Okay. You will get a grin out of me because we haven't evaluated the budget submission to see whether we think it would be sufficient, but one of the things we are looking for is the idea is come up with a plan which is effective. We want a cost-effective means, but we want SBA to be able to recognize and have resources in place or at least contingencies in place that also entail some costs to try to position itself for not just the next hurricane season or the next earthquake but looking down, as Mr. Preston has referred to, what happens if a few years from now the reserve corps decline, as they did after 9/11. We are looking for that sort of approach.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Chabot?

Mr. CHABOT. Madam Chair, in the interest of getting to Mr. Baker and the witnesses that have come all the way from Louisiana and Mississippi, if we have any additional questions, we will submit them in writing.

Chairwoman VELÁZQUEZ. Thank you.

I will recognize Mr. Jefferson for two minutes.

Mr. JEFFERSON. Yes, ma'am. God knows I don't want to be disrespectful to the folks who came from Louisiana nor Mr. Baker, but I just want to ask this one thing. It will take a half second. The SBA has insinuated in this process because we can turn here by recovery, as opposed to the traditional lending programs the SBA has. And there are certain things that are going on now which are inflexible. I want to just ask you about looking at these from the point of view of flexibility that will help to facilitate the recovery.

One, Mr. Melancon mentioned earlier, the road home program. If you get a grant from road home, you automatically must pay off the SBA loan. Okay. Not so?

Mr. PRESTON. No.

Mr. JEFFERSON. But the second one is this. On the subordination issue, we have had folks down there who had equity in their homes before the storm. They go out and get an SBA loan.

They get the house fixed up using that and insurance, plus using other things. Now they get it re-appraised, and they have some equity there. They want to borrow money to go reestablish a business, let's say. And when they do that, they go back. The SBA says, "You can't subordinate unless you pay off the loan." That retards the idea of recovery, and it makes it more difficult.

I just wanted you to think about—

Mr. PRESTON. Thank you.

Mr. JEFFERSON. —these issues of flexibility so that people can have a real chance to get back on their feet and get their businesses back, stood up, as opposed to just having a hard and fast

rule that says, "If you have a refinancing and you take cash out, you must pay off the SBA loan, as opposed to being able to invest it in your business and get that back, up and going."

So those are the issues I am really concerned about, these issues of flexibility. That would put a sound decision we made to a recovery.

Mr. PRESTON. Thank you. I would love to get with your team, Congressman. I meant to take you through the road home situation because I think there is a lot more to that. And I will also look into this other issue.

Chairwoman VELÁZQUEZ. Okay. I recognize that there are witnesses who came all the way from the Gulf Coast, but it is not every day that we have the administrator here. And we need to ask the questions that needed to be asked so that we prevent or avoid another situation where we will have to have not one more hearing but two or three or four. I wish that the situation that we witnessed in the Gulf Coast region doesn't occur again. And that is why we need to take the time to ask the questions.

And some of the witnesses that were coming from the Gulf Coast region because of the weather didn't make it. And so I am going to be asking a question based on some of the written testimony. And that will be my last question. But also, Mr. Preston, I will be submitting written questions to you.

One of the primary benefits, Mr. Preston, that you described for the improved disaster program is increased accountability. And, despite these efforts, we have heard from disaster victims who are here today that these benefits haven't materialized under the case management model. What will you do to address this problem and improve accountability?

Mr. PRESTON. Okay. Well, I, as I do in all of these cases, try to understand what the underlying issue is. But accountability I think has been increased dramatically. And I don't think we could have ever achieved the results that we did without much greater accountability.

Now, with dealing with these numbers of people, obviously it is a new process. As I mentioned in my testimony, we're not perfect yet. And I give out my e-mails. I get those e-mails from people directly. I follow up on every one of them. And I see what those problems are. So we continue to have them. But accountability in this program is dramatically higher. And I don't think we could have ever shown these results without that.

Chairwoman VELÁZQUEZ. Mr. Shear, any reaction to the case management model that they have?

Mr. SHEAR. I am sorry. We haven't evaluated it.

Chairwoman VELÁZQUEZ. Well, we are going to hear from some other witnesses that they are still being passed from one case manger to the next, the documents still have been lost, that they have been submitting and resubmitting those documentation. And, yet, they do not get an answer.

Mr. PRESTON. Let me address something. I have held public forums in the Gulf. I was with 70 borrowers from the New Orleans area a couple of months ago, public forum, open mike. Come and tell me exactly everything you are doing wrong.

Believe me, I talk with people on the phone. I correspond with them. There are still going to be issues. And there is no doubt within 23,000 people you will find people that aren't happy that we have not dealt with appropriately because somebody wasn't trained well or we didn't have somebody on the phone that was effective.

The other thing that we are going to find is we have begun shrinking our operations because we have handled so much of the demand. So some of these case managers are leaving and we are handing them over to new case managers. And there are cases where that hand-off isn't as effective as it should be.

So I have no doubt you will be able to find people, but I will tell you by the meetings I have had—I have talked to many local leaders—we are getting an overwhelmingly positive response from people and people that we wouldn't necessarily expect to get those responses from.

Chairwoman VELÁZQUEZ. Well, I want to thank both gentlemen. And I will ask Mr. Preston that some of you will stay here so that they could listen to the witnesses' testimony. And now I just want to welcome our colleague Congressman Richard Baker.

STATEMENT OF THE HONORABLE RICHARD BAKER, CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES

Mr. BAKER. Thank you, Madam Chair. I appreciate the Committee's courtesy in allowing me to be able to make brief remarks. I know Mr. Melancon appeared here earlier in the day.

Just a quick infomercial about Katrina's response and community rebirth in light of comments I have heard from members. If you were to imagine every person in this room represented a household and that the morning after the storm you were to come into this room and everything is gone, not just a question of the house, it is a question of the car, you know, the pets, the grocery store, the school, the policemen, the firemen.

In Mr. Melancon's district, there was a community of 67,000 people that 6 months after the storm had 212 operating utility meters, 67,000 people gone. So the magnitude of this is really beyond anyone's comprehension.

And I don't personally fault government entities for their failure to respond in the most efficient manner possible, but it does present this Committee and this Congress with opportunities to do the thorough examination that you are engaged in. And for that, I am very appreciative.

I would like to point out that in the case of rebuilding, the road home that has been made reference to this morning is a very troubled road home. I am now calling it home alone. The reason is that as of last week, there were 501 closings for a disbursement of $31 million or an average payout of $62,000 for a program that is funded by this Congress at the level of $7.5 billion.

We now have an almost $2 billion additionally for hazard mitigation funding, which is to take property out of commerce and to preclude rebuilding on those sites forever. Not a dime has been spent.

We have a total of $9.5 billion, of which 31 million has been put into the hands of individuals. If you are wondering why nothing is happening, that is a good place to start.

But even, Madam Chair, if you had the money and you lived in your neighborhood and Mr. Chabot and Mr. Jefferson were your neighbors and you did not know what their plan was to return, would you actually spend your disposable income on that house in that desolated neighborhood not knowing what the future economic value would ultimately be? Many people are simply not choosing to come back.

As the administrator indicated, there are 23,000 people looking to decide what to do on their SBA loan for which they may have been approved. They can't come back until there is a systemic resolution to this problem.

Today the funding is made available to individuals. And individuals make decisions about whether they should come back to a community for which they do not know if there will be a school for their child or a policeman to respond. That is a recovery which is, at best, on very weak legs.

I come this morning to join with Mr. Melancon on a bill that has been introduced in the Senate that I think would greatly aid the resolution of SBA lending assistance. There exists now a preferred lender program with qualified banks, which I am sure the Committee is aware of, where we hand off as an SBA to the banker the right to make expedited loan decisions and the bank has the right to extend the government guarantee without the government formally being involved in the process prior to closure. That is based on a relationship the bank has built successfully with the SBA.

The bill we are proposing models after that program very similarly in that it allows the SBA to pre-clear approved banks to be able to make loans to disaster victims without the necessity of having to go through a burdensome or lengthy SBA pre-approval process. I think it would make great sense. It would avert the problem that many of my colleagues have about ratcheting up employee levels to an unwarranted amount and not having a concurrent disaster that justifies the presence of those employees.

Where will the next disaster fall? We don't know. Does it make sense to have a lot of people in the Gulf and, yet, we are worried about an earthquake in California? How do we deploy? That is one thing, unfortunately, nobody has the ability to predict.

However, what we do know, in the State of Louisiana, 90 percent of the businesses employ less than 30 people. Louisiana is a tourism, arts, crafts, personal services type of employing entity. And those people all have relationships with some form of the bank customer. And so by deploying the banker to be able to be the emergency responder subject to oversight and supervision of the SBA seems to make a lot of strategic sense to me. And in most cases, the banker has a better understanding of that ability to repay than a newly trained SBA employee, who may not have been on the job 30 days prior to arrival in the city to respond to the emergency.

Getting people, as Mr. Jefferson said, who know each other to make judgments about creditworthiness is a far superior methodology than to a government-imposed, very expensive, often inefficient, and certainly very lengthy process that doesn't give us the response that we would all like to see.

So I strongly recommend the approach. Certainly there are areas where the Committee may choose to modify slightly. We were back

and forth on whether or not the fees should be artificially set. We know on the home loan bank side, where lending occurs through that system, that there is a capped amount of fees the bank can make. A strong argument has been made by the banking community that it should be a negotiated item depending on the terms of the event in which you are engaged.

Don't forget that in the midst of our devastation, we lost the banks, too. And the only way that we had the capacity to engage in financial services was through automatic teller machines or via the Internet through remote locations. And so institutions which were entirely domiciled within the region of the disaster were without service, period. That created enormous problems for people in rural communities who only had that banking relationship.

We strongly recommend the Committee's consideration of the approach. And I would be happy to answer any questions the Committee may have.

[The prepared statement of Mr. Baker may be found in the Appendix, on page 61.]

Chairwoman VELÁZQUEZ. Mr. Chabot?

Mr. CHABOT. Thank you, Madam Chair.

I would just like to commend the gentleman and his colleague who testified earlier because we are seeing two gentlemen who are from the area who have seen this firsthand and they have come up with a bipartisan solution. It doesn't mean it is a perfect plan, but this Committee will look at it. And I want to commend you for bringing this forward.

Mr. BAKER. Thank you, sir.

Mr. CHABOT. Thank you for testifying.

Chairwoman VELÁZQUEZ. Do you have any more?

Mr. JEFFERSON. I just want to commend Mr. Baker, too, for the efforts that he has made going back to the last session, when we had the Baker bill here that had the idea of bringing back communities as you brought housing because people can't live in places without communities. And I appreciate his observations, and I appreciate the efforts he is making to extend his work. Thank you.

Chairwoman VELÁZQUEZ. Mr. González?

Mr. GONZÁLEZ. Just briefly. Again, thank you for your patience. And, of course, for those who may not be aware, Congressman Baker is a highly regarded and esteemed member of Financial Services. And he knows what he is talking about.

Just as a member to member, when things go wrong and a federal agency or department is not responding, we get those calls. What has been your experience from individuals in the area that have expressed their concerns, complaints with SBA, if any?

Mr. BAKER. A very high level of frustration. And I can honestly say, though, in defense of the SBA, it is not a singular complaint about a particular agency. People are mad about everything. It is not Democrat/Republican. It is not federal, state, or local. If you say, "I am from the government," you don't get any further before they give you an earful.

And they have every right to be feeling that way. When you go back to the numbers that I outlined at the beginning aimed at housing and how small, infinitesimally small, percentage of dollars have actually been put into the hands of people, you can under-

stand if you are sitting there with debris still on your lot living in a trailer, which, by the way, that is another whole chapter of our lives, it is certainly a very depressing outlook for people who are trapped in a seven or eight hundred-person trailer park with no prospect of going back to a job which used to exist with no alternative training to get education or skills to go off in another direction.

And this is true whether you would be fairly well to do or whether you are poor. I had a distinguished senior member of an architectural partnership sitting in my Baton Rouge office just weeks ago. He is now living in a rental property north of the City of New Orleans in a very rural community. All of his receivables for work that was in process are not being paid because you can't go out and sue somebody because their business is gone, their plans to rebuild are over. All of his employees have disbursed.

It is truly an amazing set of circumstances to think that almost two years after the effect of landfall in this country, we still view significant ruins. I don't know if there will be historic ruins or something that will be turned about in a short period of time, but this goes to the core of questioning how this government works. And certainly what we pay or what the people who lived and worked in Orleans and the surrounding areas paid in the way of taxes, what were they waiting to rely on when devastation occurred? And there is great room for improvement at all levels.

I don't make this comment specific to SBA. I just think there has got to be a better way to handle the extraordinary amount of money you have made available with the best of intentions to help people recover and seeing what we now have in front of us.

Chairwoman VELÁZQUEZ. Thank you.

Mr. GONZÁLEZ. Thank you very much. And thank you for your service. Thank you, sir.

Chairwoman VELÁZQUEZ. I want to thank you and commend you for all your efforts, your passion, and your concern. This is just not about the Gulf Coast region. This is how can we best be prepared to assist small businesses when a natural disaster strikes again.

We will be looking at legislation. One of the concerns that I have is how affordable those types of loans will be for victims who have lost everything.

Mr. BAKER. Madam Chairman, I appreciate your attention and interest. My grave concern is that going forward we simply cannot let this happen in another community and have a similar outcome. Any way I may be of service I certainly want to be. Thank you.

Chairwoman VELÁZQUEZ. Thank you.

And now I would ask the third panel to please take your seat: Mr. Edward Francis; Donna Colosino; and Mr. Bryan McDonald. Good afternoon to all of you. Welcome. And thank you for your patience.

I will introduce Mr. Edward Francis. He is the Chief Operating Officer of the Hancock Holding Company in Gulfport, Mississippi. Hancock Holding Company, established in 1899, is a certified SBA lender that was itself impacted by Hurricane Katrina with the loss of its headquarters and several other businesses that were impacted through its lending programs. Mr. Francis is here today on behalf of the American Bankers Association.

Then we have with us Ms. Donna Colosino, who along with her husband owns CRESCENT Power Systems. They sell electrical power generation equipment to large industrial clients in three states. The Colosinos' business property and documentation were destroyed after the 17 street levees in New Orleans broke. They are trying to secure an SBA loan to repair their facilities. They, too, have been in the process with SBA for a year and a half and will share their experience with the Committee.

And now I will recognize Mr. Chabot, who will introduce his witness, Mr. Bryan McDonald.

Mr. CHABOT. Thank you, Mr. McDonald. My understanding is that you are the Director of the governor, Governor Barbour's, Office of Development. We appreciate your testimony here this morning and look forward to hearing it. Thank you.

Chairwoman VELÁZQUEZ. Mr. Francis, you may proceed.

STATEMENT OF EDWARD FRANCIS, CHIEF COMMERCIAL OFFICER, HANCOCK HOLDING COMPANY, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY DONNA COLOSINO, CO-OWNER, CRESCENT POWER SYSTEMS; AND BRYAN McDONALD, DIRECTOR, MISSISSIPPI OFFICE OF DEVELOPMENT

Mr. FRANCIS. Madam Chair and members of the Committee—

Chairwoman VELÁZQUEZ. I am sorry, but let me just state that every witness will have five minutes to make your presentation. And then you can enter your whole presentation for the congressional record.

Mr. FRANCIS. Thank you.

My name is Edward Francis. And I am the Chief Commercial Officer of Hancock Holding Company. Hancock is a $6 billion institution that is headquartered in Gulfport, Mississippi. It has been in existence since 1899. We operate over 100 branches in Louisiana, Mississippi, Alabama, and Florida. I am pleased to be here today to represent the American Bankers Association.

When Hurricane Katrina struck the Gulf Coast in 2005, Hancock's headquarters building and numerous branch offices along the Gulf Coast were wiped out. Our entire computer operations center, loan operation, and deposit operations shops were lost. Despite the devastation, we were able to open some branches the very next day to service our customers.

It took weeks before we learned the fate of our associates, but one by one they were all accounted for and were willing to do whatever it took to ensure that our customers were taken care of.

When a disaster like the Gulf Coast hurricane strikes, the most immediate need that small businesses face is money, money to pay for cleanup, money for building repair and supplies, money to pay their staff, and money to keep their businesses and the local economy moving. However, several problems inherent in the SBA's disaster lending program prevented the agency from meeting this need in a timely and efficient manner. Many of these problems still exist today.

The hurricanes were followed by an extraordinarily high volume of SBA disaster loan applications, more than 2 million by last May. To handle the large volume, the SBA was forced to hire and train

temporary staffers that had no prior loan experience or familiarity with the SBA's policies.

This required precious time. It was largely responsible for the long delays in application processing. Disaster victims had to wait an average of 74 days for the SBA to process their loan applications, a far cry from the SBA's stated goal of 21 days.

The ABA believes that a practical solution is for banks to be more directly involved in SBA disaster lending process, much like Mr. Jefferson and Mr. Baker had mentioned.

Banks are well-suited for this purpose. Banks, many banks, are certified SBA lenders and are familiar with the SBA procedures, placing them in a good position to help the agency and disaster victims.

Integrating banks directly in disaster lending will allow the SBA to take advantage of the licenses that banks already have with individuals and businesses in the communities. It will also allow the SBA to rely on the existing expertise of our bank loan officers and will avoid problems associated with hiring temporary staff.

Capitalizing on these existing assets is the most effective way to get disaster lending into the greatest number of victims' hands in the shortest time possible.

The SBA's disaster lending program should be modeled after the agency's 7(a) lending program. Because of the nature of disaster loans, some of the elements will have to be different.

We recommend that the SBA offer a higher loan guarantee, waive some collateral requirements for smaller loan amounts, and allow longer repayment terms for disaster loans. This will prevent the cash flow problems the victims face immediately after a disaster. Giving them adequate time to rebuild would create a stronger incentive for banks to get involved in disaster lending.

Madam Chair, at Hancock Bank, we had a longstanding culture that we would be the first to open and the last to close after any hurricane. Immediately after the Gulf Coast hurricanes, we created an outreach program so that we could thoroughly assess the needs of our business clients. These efforts helped ensure that the relationships we have built over the many years would not be simply swept away with the tides of the disaster.

We are proud of our accomplishments and know that other banks are just as committed to the long-term economic stability of their communities. Improving the SBA disaster loan program will help us rebuild our communities quickly and efficiently in the wake of disasters. We look forward to working with the Committee toward that goal.

[The prepared statement of Mr. Francis may be found in the Appendix, on page 92.]

Chairwoman VELÁZQUEZ. Ms. Colosino, you will be recognized for five minutes.

STATEMENT OF DONNA COLOSINO, CO-OWNER, CRESCENT POWER SYSTEMS

Ms. COLOSINO. I want to express my thanks, Madam Chairman, and to all the members of the Committee for holding this hearing, first, and for allowing small business also to give a face and a voice to our experience.

Can I ask a question? Is there anyone from SBA in the room? I am part of an organization called Second Wind. Second Wind is a grass roots organization that was formed post-Katrina in the New Orleans area. It is small business people helping small business people. So I am proud to be here as a member of Second Wind.

You heard a little bit about our business. We have been in business for 13 years. Our 2006 sales were about $7.7 million. We are basically a manufacturer's representative business. Our clients are Exxon and Chevron and General Hospital and LSU Medical Center. So when we responded to the hurricane, we responded to their issues promptly.

Our property was located in Lakeview, which is a now famous community, about a mile from the 17th Street Canal. We sustained no damage in the hurricane. Basically we were able to call into the building, get our phone messages. So we were like "Good. We lived through this."

However, when the levee failed, the building was swamped with about 12 feet of water for several weeks. So we lost everything. We lost our inventory. We lost all parts of our business, including all business documentation that we had for 13 years.

I am going to summarize our experience for SBA loan number 906149, which was supposed to help us address our catastrophic business losses. This testimony is based on the notes I kept in that process.

As a small business attempting to recovery from disaster, several themes emerged in our experience with the SBA. One, there is no accountability at SBA, not today, not a month ago, not two months ago, not a year ago.

Two, there is no continuity and virtually no follow-through. I have been passed off to more than 20 different owners, however you label them, of my file.

Three, the process is grossly redundant and obviously excruciatingly slow. We were asked to provide the SBA with the same materials again and again at least a dozen times, at least a dozen times.

Number four, while usually outwardly nice enough,—and some vary and some not so—SBA representatives were typically clueless about our application, I mean like "Who are you?" clueless, "What do you want?" clueless. We were given off-the-cuff advice by different representatives that contradicted, you know, what other people had told us over and over again.

In addition to taking forever after all, we still have not received the loan, for which we were approved. Working with SBA after a disaster is like having a second job. It takes a toll on your time, your resources, and your well-being.

Our application was filed the 13th of October, 2005. Early January of 2006, there was a site visit at our location. And January 25th of 2006, we were approved for a loan for $250,000. In that time frame, while it was tense and hard for us, okay. So a year ago, more than a year ago, we were approved for a loan for $250,000.

I want to make a point that Mr. Preston said that the loan amount was under three percent. That is only for homeowners. Small business owners pay four percent, which is, as you know, about two percent above market.

Nina, Amy, Mike, Chad, John, on and on, the representatives that we spoke with, all the way through about May. Again, every time I speak to someone from SBA, without fail, they don't know who I am. They don't understand anything about my claim.

Did we have outside challenges, as Mr. Preston said? Yes, we did. We were responding to our clients' very urgent needs.

Let's be clear on another point, very clear. The federal government, which is extending me a loan for $250,000 and I am willing to pay 4 percent on that loan, not asking for help that I'm not willing to pay for—okay.

Let's move to May 17th of 2006. And we received an initial disbursement of $10,000. This is a very important point. At that point, SBA sort of chucked us off the list. And our loan has been serviced. I am continuing to ask for the fulfillment of that loan, but that $10,000 moved us from one box to another. So somehow I am included in that 98 percent that has been serviced. And I have clearly not been serviced.

And, worse yet, the clock starts to tick on your one-year grace period at that point. Okay? So you have one year to repay. Well, now our clock is ticking from May of 200. And you say, "Well, surely you want to repay that $10,000."

And I would say, "Absolutely. Absolutely." And I will start repaying that. But my loan is coming due in full in May of 2007.

I am not alone. Do not think they pulled me out of a pile of great experiences from SBA and stuck me up here because I have the one bad story. My loan will come due May of 2007 for $250,000, and I have received $10,000. I have the bill right here telling me when it is going to start to be repaid, just so you know.

Okay. Fall of 2006, the reengineering process that I heard so eloquently spoken of has now been kicked into place for about three months. Okay? So I get a call. I call in again, just to check, as I have routinely, repeatedly. And I speak to Mr. Jeff Hardway, who asked me to resend all documentation again. This is three months after the team process has been in place.

I resend it. I resend it to him, call again, ask to speak to Mr. Jeff Hardway. There is no Jeff Hardway. "We don't know anybody by that name. Can we help you?" This is our next loan officer, which is loan officer number 18. This was in October of this year, Appalonia Arayza. He says, "I'm sorry. I don't have any information. Can you tell me what happened? And can you resend all the documentation?" Okay.

So we worked through that process. Finally in January of 2007, we send our notarized loan documents into SBA. Okay? A full year after we were approved for this loan, we send in the loan documents. They are notarized. Everything is as we have been told it should be.

I called back in another three weeks, two and a half weeks. No Appalonia Arayza. I have a new loan manager. Does he know anything? His words to me were—and I am quoting—"Who are you? And what do you want?"

I'm thinking, "Okay." Your gut reaction is to cry or yell, but no. I think maybe this is the one. Okay? Maybe this is the person at SBA that will listen, that will hear, and that will do something for us.

If there are 23,000 people whose loans have not been disbursed, you are looking at someone who is in the area of SBA loans that have been disbursed. I have heard so many MBA terms here. One of the MBA terms that came to my mind was, "GI, GO." And that means garbage in, garbage out. My loan has not been disbursed. I am not in that number. I want you to understand that.

Another thing I need you to understand is that now I am being told by my newest loan officer that I have to provide receipts, receipts on amounts up to $250,000 in order for me to receive it. So what that is saying is I have to spend my loan to receive it. That is not exactly facilitating the process of renewal in a community that is hurting.

So I heard a little bit, too, about demographics. And maybe the demographics of the area has a reason for us not recovering. But I would say to you that if you have been told and if you believe that this SBA has been re-engineered and if you have been told and if you believe that all of those loans had been processed appropriately because my loan is on the checkmark side of being done, you are getting bad information. And please don't allow yourself to be given bad information.

I would not even tell this story at a New Orleans cocktail party because I'm telling you it wouldn't raise an eyelash, an eyebrow. Everybody has this story.

I swear to you on my father's grave this is the story. I am not an anomaly. I would never have taken the time to do this. My husband wouldn't have taken time away from our business to do this had we thought we were an anomaly. We are not. I promise you we are not.

[The prepared statement of Ms. Colosino may be found in the Appendix, on page 111.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Colosino.

Mr. McDonald?

STATEMENT OF BRYAN McDONALD, DIRECTOR, MISSISSIPPI OFFICE OF DEVELOPMENT

Mr. MCDONALD. Good morning. I would like to thank the members of the Committee for allowing us to share with you about the state of small business recovery that is occurring in Mississippi. I want to thank you very much, Madam Chairwoman and Ranking Member and distinguished members of the Committee for giving me the opportunity to visit with you here today. Also, as one who rarely gets to see snow, I want to thank you for making that happen.

On August the 29th, 2005, Hurricane Katrina struck Mississippi with a terrible blow. Although the eye of the storm landed at the Mississippi-Louisiana line, that eye was more than 30 miles wide. And Katrina completely devastated our entire coastline of some 80 miles. The miles upon miles of utter destruction are somewhat unimaginable except to those of you who may have had a chance to witness it with their own eyes.

This hurricane wasn't just a calamity for the Mississippi Gulf Coast. Its impact reached far inland, all the way into our state. We recorded hurricane-force winds more than 200 miles from the Mississippi coast.

Damage along our Gulf Coast was widespread. And damage estimates totaled more than $125 billion. FEMA has reported that over 65,000 homes in south Mississippi were damaged or destroyed. Electricity was lost for some 80 percent of the state's 3 million residents. More than 45 million cubic yards of debris were left in the hurricane's wake in south Mississippi. So Hurricane Katrina's effects on Mississippi alone would rank her as the largest natural disaster ever to strike the United States.

Small business women and men across our state found themselves having to scramble. They had to adjust and innovate just to make do. And it was the spirit of those people, people of our small business community, that helped pull us through. Our people are strong and resilient and self-reliant. And from day one after the storm, they got to work and did what had to be done. They helped themselves, and they helped their neighbors, often when they didn't have. Their spirit has been an inspiration to all of us. And the spirit remains the key to our recovery and rebuilding and renewal effort.

SBA has been a strong partner with Mississippi. And SBA's business and economic injury loan programs have aided thousands of Mississippi businesses. With more than $500 million in loans, the SBA has also offered, as you know, physical disaster business loans of up to $1.5 million to repair or replace businesses that are located in the declared disaster.

Additionally, SBA's economic injury loans for small businesses provide financial assistance to small businesses that suffered substantial economic injury. Our small businesses in some 67 Mississippi counties affected by Hurricane Katrina have also taken advantage of the SBA-backed loans of up to $150,000. Those loans, known as go loans, have been delivered through local banks and have been handled under an expedited process that in some cases have delivered a response on a loan in 24 hours or less.

SBA has also served as a very good partner for Mississippi through our homeowner assistant grant program. Prior to disbursing HUD-funded homeowner assistant grants, the state must share the information with the SBA to ensure no duplication of benefits exists.

We would like to thank the SBA publicly here for their efforts to ensure that timely payments to homeowners are made. That information, the search for duplication of benefit, is currently being provided on a 48-hour turnaround basis. We certainly appreciate that.

SBA's assistance along with the hard work of our state and our citizens has helped spur a tremendous economic recovery in our state. With employment levels now above pre-Katrina levels, Mississippi's economy recovery is in full swing. Ongoing recovery efforts will require continued investment, innovative partnerships, economic incentives, and workforce training.

While much has been achieved in the months since Hurricane Katrina, our work to recover, rebuild, and renew is a marathon effort that we know will take years. Much opportunity lies ahead. Hurricane Katrina with all its destruction gave birth to a renaissance in Mississippi that will result in rebuilding our state bigger

and better than before. Small businesses will be at the heart of that renaissance.

Small business women and men of our state have been a model of the spirit and character of our people. They remain strong and resilient and self-reliant, though they have endured terrible hardships. They bore the worst of Katrina. And many are still living in conditions that amount to deprivation, but they persevere.

Our state's small business community is rebuilding one day at a time. And we ask for your continued assistance in helping them move forward. Through your efforts and the efforts of the people of our great state, we will rebuild. And it will be a Mississippi that exceeds anything we have ever known before.

Thank you, Madam Chairwoman.

[The prepared statement of Mr. McDonald may be found in the Appendix, on page 105.]

Chairwoman VELÁZQUEZ. Thank you. I want to thank all of you for your presentations and especially Mrs. Colosino, your powerful presentation on your experience with the SBA disaster loan program.

Mr. McDonald, I just can't help myself but ask why is it that experience in Mississippi with the SBA has been so dramatically different than the one in Louisiana?

Mr. MCDONALD. Madam Chairwoman, I will share a couple of observations on that point. It is very difficult to use the term "blessed" when you speak of what happened at Katrina. So I will use the term "fortunate."

We experienced a hurricane. We did not experience a flood. Therefore, arguably, we had a 90-day head start in that respect with the SBA because we didn't have to wait for water to recede. I also want to share with you that we have been very focused and very deliberate about taking steps to remove any barriers to communication.

Administrator Preston has facilitated that process and met with us on many times. And, much in the spirit that is offered here, we know it is not a perfect world. We recognize, this Committee clearly recognizes that more needs to be done sooner. We have been fortunate in our communications with SBA to engage them on a level in which they respond in the same manner. They have been eager to work with us and remove those barriers.

Chairwoman VELÁZQUEZ. Did you have any experience with victims, especially small businesses, in your area regarding the relationship in assessing the service from the Small Business Administration disaster loans? Were there any backlogs? Were there any loss documentation, runaround, any of the things that we have been hearing from the other part of the region?

Mr. MCDONALD. Yes, Madam Chairwoman. And I certainly didn't want to paint a picture of a perfect world. We experienced some of the same, many of the same, instances, again, I believe on a somewhat smaller scale because of the size of our affected community. And what we found is as we elevated those issues and sought expedited attention from the SBA, that we were in most cases able to receive that.

Madam Chairwoman, much like in parts of our brother or sister state, you know, in Mississippi, in the 80 miles of coast that were

affected, small businesses are more than just the economy that provided the paycheck for my father that allowed me to go to college. Small businesses are the fabric. They are the corner store where life happens.

Chairwoman VELÁZQUEZ. Thank you.

Mr. MCDONALD. And so we really saw a pointed response from the community.

Chairwoman VELÁZQUEZ. Thank you.

Ms. Colosino, I understand that your loan file has moved among different loan processing teams and case managers since the agency implemented its new case manager system. Have you seen this as an improvement over their earlier system?

Ms. COLOSINO. No, clearly not. We have not seen an improvement. In fact, I didn't even know there was a new system implemented. That was news to me. So it has been the same experience. My testimony has the language in it, I guess, that reflects that change. I just didn't know. But we have continually been passed off again and again and again. So in any organization, that would never work, doesn't work here.

Chairwoman VELÁZQUEZ. You mentioned a dozen times where you have to resend your documentation. Do you know if this happened after the new case management system was implemented?

Ms. COLOSINO. Well, I have sent it—I don't know—probably half a dozen times since then, since the new case management system.

Chairwoman VELÁZQUEZ. The new case management system was implemented in the summer. Have you had to resubmit documentation ever since?

Ms. COLOSINO. Yes, ma'am. I have had to resubmit at least half a dozen times and as late as November.

Chairwoman VELÁZQUEZ. We have heard many small businesses to say that time is of the essence following a disaster situation. In your experience, what is the appropriate time frame for receiving financial assistance?

Ms. COLOSINO. Well, the 74 days that apparently is the average probably is too long. You know, for us we liquidated our own savings. We had to sell our house eventually. Had we been able to receive our loan in a more timely manner, we wouldn't have had to do that.

You know, 74 days to me sounds great. I am at 380-something days. So I would say, you know, wouldn't it be great if you could do it in 60, awesome if you could do it in 45? A regular loan takes, you know, five weeks. Anything is better than 380.

Chairwoman VELÁZQUEZ. Would you like to comment, Mr. Francis?

Mr. FRANCIS. Yes, ma'am. Thank you.

Having serviced hundred of thousands of small business, we saw the need arise immediately. We saw businesses that wanted to take advantage of the cleanup that needed to buy new equipment. A big pressing need was the worry about where their employees were, the fact that they needed to make payroll to keep those employees so that when they returned, they could return to work.

Those needs are immediate. They are the day after the storm. It is not 60 days. It is not 90 days. It is immediately. And I can't stress that enough, that it is waiting on the SBA. Even if it is 74

days, it is too long. We need to be a in a position that we can react to those businesses and help them immediately.

Chairwoman VELÁZQUEZ. The system that they need to get their feet back on track and keep their businesses open or just close the businesses out altogether.

Mr. FRANCIS. I am sorry? Repeat that.

Chairwoman VELÁZQUEZ. What I am saying is that time is of the essence. And if they don't get in a timely manner the cash assistance that was promised to them and they keep waiting and waiting, they will lose their businesses altogether or, like in some many instances, people will decide not to move back into the area.

Mr. FRANCIS. Exactly. That is exactly what has happened. We have many businesses that were not borrowing money that had checking accounts with us that didn't go apply for loans, that just basically closed shop and left.

Chairwoman VELÁZQUEZ. In your testimony, you describe how an increased deferment period will significantly benefit small business borrowers. What length of deferment do you believe is appropriate?

Mr. FRANCIS. Well, a lot of that depends on the type of business. If you have to rebuild your whole building to set up your manufacturing shop, that is a lot longer. If it a restaurant that needs to buy new equipment and new tables and chairs to put in place, it is a shorter process. And so it all depends on the business.

I think that is where the bankers really come into play is because we know these people. We know the businesses. We know how those cash flows work. We know the character of those individuals. And so we can deal much quicker, much more directly with those folks. And we understand those different types of businesses because of the experience that we have.

Chairwoman VELÁZQUEZ. You heard Mr. Baker, Congressman Baker, talking about including private lenders in the disaster lending process. Would it be necessary for the SBA to make a 100 percent guarantee or would an 85 percent guarantee be sufficient to ensure the private sector coming in?

Mr. FRANCIS. No, ma'am. We would not like to have 100 percent guarantee. Eighty-five percent guarantee is sufficient. That is, we share in the risk of that. It is not the government's money going out. It is private capital money going out through the banks.

Eighty-five percent guarantee in a situation that is a little less, I guess, rigid in documentation because of the immediate need would be more than enough to get monies in the hands of small businesses.

Chairwoman VELÁZQUEZ. So under the proposal that you were making, how would banks ensure that interest rates are kept low for disaster loans?

Mr. FRANCIS. Well, that is a very good question. And that is the one thing that really drives the demand for small business disaster loans, is the interest rate. If those interest rates were the same as a mortgage loan or a regular business loan, nobody would go through that rigmarole to get a loan except the ones that are the least creditworthy.

So I think that the government has to think about a way to subsidize the interest rates, not for the banks' benefit but for the benefit of the borrowers, so that we could pass on those savings to the

customers. That would be a very effective tool to get low cost of capital in the hands of individuals and the borrowers and small businesses.

Chairwoman VELÁZQUEZ. Thank you, Mr. Francis.

And now I recognize Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chairwoman.

Mr. Francis, since most disaster loans are those for physical damage suffered by homeowners, would it make sense to have banks process homeowner disaster loans and allow the SBA to focus on disaster loans for businesses?

Mr. FRANCIS. Well, I tell you what. I think that the SBA in my opinion does a better job of processing the individual loans than they do the business loans. And the reason why is because they are less complex. The business loans are the ones where we have the relationship.

We understand these businesses. We have worked with them for many years. That is where the SBA has trouble. When you have got documentation destroyed, lease agreements destroyed, and you can't reproduce them, that is where things get stuck.

Mr. CHABOT. Well, let me reverse my question, then. Would it be better to have them concentrate on the other and have the private sector?

Mr. FRANCIS. I think it would be best to have the banks and other financial institutions concentrate on disaster loans. These are our customers. They are our mortgage customers. We create mortgages for them. We create small business loans for them. We know these folks. We can talk to them the day after the storm or try to talk to them the day after the storm. We don't have to mobilize people. We are already there in existence. We have got branch networks in existence. We don't have to go find space for them to work. We don't have to go find workers. We have them in place. So I would recommend that we look at having the banks work in conjunction with the SBA on individual loans and small business loans.

Mr. CHABOT. Okay. Have your bank customers expressed any difference to your employees about the speed with which the SBA is currently processing disaster loans today than in the first year after Hurricane Katrina?

Mr. FRANCIS. To be honest with you, we have not heard a whole lot of it lately. In the beginning, there was a lot of frustration, but most of the businesses have just said, "Forget it. We will come to you for the loans."

Our loan demand is way, way up. And they are just coming straight to do bank loans. Now, the disadvantage is that they don't get to borrow at a low interest rate that the direct SBA loans offer. But the businesses need the case more than they need the low cost of capital to survive.

Mr. CHABOT. Thank you very much. Let's see. Ms. Colosino, first of all, thank you for coming here and telling us how this affected you. Obviously it has been an awful experience all the way around.

And, you know, your testimony is very disturbing because we heard testimony earlier obviously that things are improving. And, according to you, things haven't gotten any better. And a thing that

is particularly disturbing is you indicated you are pretty reflective of a lot of other folks in your community.

Do you want to expound upon that at all as to how you are aware that other people are going through the same thing that you are?

Ms. COLOSINO. Well, just from being part of Second Wind, first of all. Second Wind started with ten businesses, small businesses. And now it's 1,200 small businesses. So that is one way.

And then, you know, we are a member of our community. I am a native New Orleanian. My husband and I both went to college there. You know, that is our home. So we know many, many people that have done precisely what you said, which is say, "Oh" and go to a regular bank.

We also have secured three different loans from banks to buy property and things that we need for our business in the interim. Okay? So three times I have gone commercially.

And it is just part of the fabric of New Orleans that SBA doesn't work for us. It is so—

Mr. CHABOT. Let me make sure I understood something that you said earlier, too. Just to clarify, you had mentioned when you got the initial $10,000, you said that within a year—you sort of left the impression that the entire loan was due at that time. My understanding is that for a year, that is when the payments actually start on the additional up to $250,000. Is that correct?

Ms. COLOSINO. Well, to clarify, we received a disbursement in May of 2006 of $10,000. And I have received pre-bills, I guess you could call them, for the entire loan amount, which says, "Starting in May 2007, you will have payments due on $250,000," not on the 10.

Mr. CHABOT. Right. But not on the entire amount, just payments every month. I assume they are monthly payments that are due?

Ms. COLOSINO. Yes, sir. They are monthly payments calculated not on 10,000, which I received, but on 250, which I have not.

Mr. CHABOT. Right. Thank you.

And the other thing that was particularly disturbing is when I know how much trouble you have to go through to get all of the forms filled out and get all of the copies and everything and get them in and then to have to do it all over again. We have had that periodically over time but not a dozen times like that. That has to be extremely frustrating. And we absolutely have to do a better job than that.

Mr. McDonald, let me turn to you in my final questions here if I can locate them. In your professional opinion, what lessons should be learned by the state and the federal government from Katrina? And given your state's experience with Katrina, what suggestions do you have to give the federal government in improving its responses to such catastrophic disasters?

Mr. MCDONALD. Well, Congressman, I would respond to that by saying that I think some of the information the Committee has received here today—and I have to choose my words carefully in saying "information" but the plans, as I appreciate them, that are underway. They focus on identifying the lessons that have been learned through Katrina but, more importantly, planning to make sure that those are not repeated in other disasters are central to

what I believe is in the best interest of the process, more specifically communication.

Those communication lines, which allow us to facilitate interaction to identify expediters, to respond in a meaningful way the tenor of testimony, which I think is very accurate, which indicates the frustration felt working not only with various caseworkers but through various agencies and departments of government, in this event are somewhat unique because of the regional nature of the disaster.

The great news is after the disaster, Congress responded with a lot of help. And that is great. Each of those individual programs have appropriate checks and balances. And there was struggle. And there continues to be struggle and disconnect in making sure, as was discussed with the homeowner program, that there is not a duplication of benefit, that at the end of the day, it makes a bad situation worse in requiring an individual to return money or be asked to repay money.

So I would suggest to you that the efforts that have been undertaken here, certainly that of review and ensuring that communication, those lessons are really learned, the changes are made and that the changes are not just discussed but are real, that would be a top priority to us.

Mr. CHABOT. Thank you very much. I yield back.

Chairwoman VELÁZQUEZ. Mr. Jefferson?

Mr. JEFFERSON. Thank you, Madam Chair Lady.

Mr. Francis, let me ask you this. Other banks offer their services to the SBA. Louisiana Bankers, the American Bankers have all made them aware that they are there to be helpful. What has been the reason for the resistance that has been explained to you as to why the SBA hasn't taken you up of the offer to be of assistance to them?

Mr. FRANCIS. That is a good question, Mr. Jefferson. We worked with the LBA right after the storm, many banks meeting with the SBA, head of the SBA, to try to get them to understand and let the banks be more directly involved.

That is when the SBA came out with the go loan program, which was okay, but $150,000 from any business is not enough money. And it was a drop in the bucket. And it got some momentum, but I really think that the SBA didn't understand and didn't trust that the banks could do as good a job as they could do.

I really think it was as control thing from the SBA's standpoint that can the banks do disaster lending as good as the government can do it? And I think at the end of the day, that's why it did not get enacted.

I think we had momentum at that time to get some changes done legislatively and they just did not take the opportunity to do that.

Mr. JEFFERSON. How do you think the experience of a small business owner like the lady sitting next to you and others she has described would have been different if banks had been permitted to get involved in this process?

Mr. FRANCIS. She would have had her money weeks after the storm. And I will tell you my parents own a small business. And their experience is exactly like hers. The only thing they did differently is they said, "Forget it. We are not doing it. It is too

much." After the third time resubmitting paperwork, it is just they said, "No way. We are not going to go through this."

And the banks would have gotten money in the hands of businesses. And I think the recovery would have happened quicker. And it would be a lot further along today if we had been more directly—

Mr. JEFFERSON. One of the witnesses from the SBA said they were concerned about monitoring and accountability from banks. Does that make any sense to you?

Mr. FRANCIS. It absolutely makes sense. And as a certified lender, we have to adhere to the rules and regulations of the SBA. And we understand those. The banks understand rules and regulations. Let me tell you, the FDIC, the Comptroller of the Currency, we understand what rules and regulations are.

Mr. JEFFERSON. That is not a legitimate concern on the part of the SBA that banks couldn't be able to live up to that requirement?

Mr. FRANCIS. Banks make mistakes, but for the most part, I will bet you we are 99.9 percent accurate.

Mr. JEFFERSON. Thank you.

Mr. FRANCIS. We have to be.

Mr. JEFFERSON. Ms. Colosino, welcome to the Committee. I am glad you made it through the weather all the way to get here. I am sorry Ms. Olivier and others from Louisiana couldn't make it, but I am glad to see you here.

Ms. COLOSINO. Thank you.

Mr. JEFFERSON. I heard one of the predicates of your testimony, predicate statements, was that the storm came and everything seemed to be in good shape. You called folks and said, "Hey, we are still here, and we are ready to go back to work." And then the levee breached.

Now, the Corps of Engineers has said that it is responsible for that. It has admitted that its negligence in the construction, the design of the levee was the reason why the levees broke.

And here you are now a year later or whatever, years later now, almost a year, 18 months, whatever it is, still trying to get something fixed, taking on new loan responsibility and all the rest, because of something that a federal agency failed to do.

In the early questioning I asked whether the SBA should not be involved more, as our Chair Lady said, in grant programs in these instances, not so much to give people money for the heck of it, but here the government actually caused this problem, number one.

But, number two, to get back to Mr. Francis, it could be used not for the whole amount but to provide equity amounts that would permit the lending to take place more easily that could give them more latitude in getting money out and getting loans out.

So even if they just did a small part of it, 15-20 percent of it, particularly where there would have been no disaster, you have an experience had it not been for the levee breech, you would have been in business now. You wouldn't be talking to us. You wouldn't have had this experience.

So do you think that it is fair for the government to have more responsibility here with respect to making monies available to people who are just going about their business except the levees broke and due to the admitted fault of the government—it is not we have

to speculate about this. The Corps have stood up there and said, "We did this. It is our fault." Then they just kind of did a reverse pivot and walked behind the curtains, and they are gone.

Ms. COLOSINO. I am not sure how to answer that, but I will say that what would I wish for SBA to do? And that would be to really advocate for small business insurance issues. I mean, certainly banking issues and funding issues, but, you know, can we not talk about the other issues that small business people fight every day? So we were pitifully under-repaid by insurance, criminally so.

So yes, I wish SBA could actually effect their disaster mission if that is what it is. If it is an entity that responds to small business in disaster, then I would say do so, but if that is the vision statement today, that is not how it walks and talks in the community of disaster.

Mr. JEFFERSON. One of the problems here is that it seems like the SBA is undertaking its normal lending responsibility that it is assigned by statute, as opposed to its responsibility to help folks in a disaster to recover, treat them as if it is exactly the same thing. I hope they are. It seems like this is worse than the other one. But they treat them similarly, as opposed to treatment of the issue of recovery, helping people recover, which is an emergency issue. They don't seem to be up to the task.

Of the 1,200 people you associated with, are you saying most of these people had the same experience you had or similar experiences or have some of them had more satisfactory experience with the SBA?

Ms. COLOSINO. What Second Wind did is about three weeks ago send out an e-mail to their constituents and said, "If you have an SBA story, tell it." And I believe that you all are going to be provided with that.

We have the stories, which they are bound. And I assumed when I wrote mine up that mine would just be bound in a document and sent on. So it wasn't written to be delivered here. It was written to be part of the story. So did that answer your question? I'm sorry.

Mr. JEFFERSON. The last thing I want to ask you is the people whose names you have talked about, I don't remember them all, but you had individual names you mentioned. Where were these people from? Were these folks the SBA brought in from someplace to train them as lending officers and they went away and they kept giving you a new person because these folks went back to wherever they were from? Is that what happened? Do you know?

Ms. COLOSINO. I don't know because I could never get any information on the last person. You know, the last person disappeared off the face of the Earth.

So okay. Here we start over. And you start all the way literally, literally from square one every single time, every time. Okay?

Thank you.

Chairwoman VELÁZQUEZ. Now I recognize Mr. González.

Mr. GONZÁLEZ. Thank you very much, Madam Chairwoman.

Mrs. Colosino, would you give us permission to look into your specific case? In other words, it is your information. And if we request SBA to make an inquiry and report back to the Committee, obviously those are your records. And we need your permission, at least in my estimation. I am just asking to make sure because I

would like as of today to articulate a specific request of SBA because we do have representatives from SBA present.

Ms. COLOSINO. Okay. I would answer that in two ways. Don't assume by any chance that I am here to get my $250,000. That is good, and that would be wonderful. But there are thousands of people standing behind me that just have a different name and the same face and the same song. Okay?

So yes, you have my permission to do that. Yes, you do. You have our permission, my husband's and mine.

Mr. GONZÁLEZ. And I would ask, Madam Chairwoman Velázquez and Ranking Member Chabot, to see if they would join me in this request. We have SBA personnel here. I think this information could be gathered and reported back to us within two weeks. We won't be here next week, so two weeks from today, first how Mrs. Colosino's loan application is listed. Is it listed as a completed transaction in that percentage when, in fact, you have received 10,000 of the 250,000? And suddenly we have got figures out there that are truly misrepresentative, as you have pointed out to us.

Secondly, you have indicated that in order to receive further funding from the $250,000 approved loan, you have only received $10,000 as of last summer. You have to produce receipts. Is that correct?

Ms. COLOSINO. Yes, sir, that is correct. And I made him repeat it. And I put the phone on speaker. And I said, "Are you telling me right now that I have to produce for you receipts to the total loan amount?"

And he said, "Yes, you have to produce receipts to the total loan amount."

I said, "I can't, you know, like go down and give you an accounting of what we bought or still need to buy."

"No, no. You have to have spent the money."

Mr. GONZÁLEZ. The second question to SBA, then, is it required that someone who is receiving loan proceeds first has to somehow provide written receipts for expenditures before further amounts of money are provided to the borrower?

The next question is,—and this is kind of confusing—it appears that you qualify for a quarter of a million dollars. You received the $10,000. And the clock starts ticking, as you accurately described. From the time you received the $10,000 a year and payments are then expected, predicated on an amount of 250,000—and I want that clarified.

I definitely want SBA to please explain to me Earth's time line. Is she supposed to start paying back $10,000 at the end of the year? If she receives another $50,000 today, is it a year from today that she starts paying back? She hasn't had use of this money. I mean, none of this really makes much sense.

I am hoping that all of this will be clarified and it sort of will make sense. And that is going to be my personal request. And, of course, I would ask other members of the Committee, the Chairwoman, and the Ranking Member to join in that. And I would request that the information be made available to us.

Chairwoman VELÁZQUEZ. I will be joining the gentleman. Mr. Chabot?

Mr. CHABOT. I would be happy to join the gentleman in that request.

Chairwoman VELÁZQUEZ. Thank you.

Mr. GONZÁLEZ. And I appreciate it.

And you are right. It isn't all just about you because this could be very, very representative of what is going on out there because we want to give people the benefit of the doubt and we want to work together. And I am taking more time than I anticipated.

Mr. Francis, has the American Bankers Association made a formal proposal, been proactive in taking the initiative to approach SBA and say, "Hey, look, the way you are structuring this disaster alone is not going to work?"

You know, in this go alone or whatever it is, maybe the problem with that is that the borrower is paying a higher rate of interest and so on. So it is really not the best answer out there but how you in the private sector can come in with a proposal to streamline this procedure and pointing out all about what fees should be charged and it should be different from 7(a) and so on in your written statement that I went over. Have you all made a formal proposal? And I don't know if that is too much to ask of any association or private sector.

Mr. FRANCIS. ABA has and we have as a bank, other banks. The LBA has. Yes, that has happened.

Mr. GONZÁLEZ. I would ask that you please let us know when you made it and what response you have received. I do appreciate the effort, believe me, because I think the answers are out there.

And then, lastly, Mr. McDonald, I really don't have a question, but it's good that we remember that, of course, nothing to the dimension and scope of Katrina but that Mississippi was also hit and is in the rebuilding phase. You know, we have a reminder of that every day with one of our beloved colleagues, Gene Taylor. I also wish to remind other people that we had Rita in Texas.

And that's also been neglected. But thanks to all three of you for your presentation today.

Chairwoman VELÁZQUEZ. Before I move to recognize Mr. Johnson, Mr. Francis, I would like for you to explain to me, how do you disburse disaster loans? Would you ask for receipts before you provide the money?

Mr. FRANCIS. No, ma'am, we would not ask for receipts. What we would do is we would verify if it was a real estate construction loan. What we would do is we would—normally in a real estate process, the contractor will go and perform work and submit a draw request to us that we would go out and inspect. And then we would fund the contractor.

And in equipment purchase, the purchase order would be submitted. We would then submit the payment to the vendor for that equipment, but we would not ask the borrower in those cases to pay for it and then submit the receipts to us.

Chairwoman VELÁZQUEZ. Yes. Let me state for the record, that is part of the statute that you have to provide receipts before you get your money. But it doesn't make sense to us or to me when we are dealing with people, victims who lost everything.

Mr. FRANCIS. That is not the normal procedure in the banking industry.

Chairwoman VELÁZQUEZ. Thank you.

And now I recognize Mr. Davis. No questions? Then we'll go to Mr. Johnson. No questions? Well, let again thank all of you. We will continue to monitor the situation with the disaster loan program and the disaster readiness of SBA. And we will continue to monitor the situation, the response from SBA. Ms. Colosino, maybe before you leave we could have a conversation with members of the staff of SBA. And I want to ask unanimous consent to enter into the record testimonies that were provided by witnesses who were not able to make it.

[The prepared statements of the Hon. Michael Olivier and Ms. Patricia Smith may be found in the Appendix.]

Chairwoman VELÁZQUEZ. Without objection, this hearing adjourns. The Committee adjourns. And I want to again thank you all for being here today.

[Whereupon, at 1:09 p.m., the foregoing matter was concluded.]

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Full Committee
Wednesday, February 14th, 2007

Over a year and half ago this nation witnessed one of our country's largest natural disasters, Hurricane Katrina. The impact was enormous and one thing we all learned is that there is nothing more critical than ensuring assistance is provided immediately and efficiently to all those in need. Today's hearing will examine the response of the Small Business Administration (SBA) to Katrina, its assistance to affected small businesses, and the current state of the SBA disaster loan program.

In the aftermath of the Gulf Coast hurricanes, thousands of small businesses turned to the SBA for assistance. Many applications were stalled in an agency backlog that took months to process. Not only was there a build up, but the disbursement of funds was also significantly delayed. Those who were approved for loans often waited months to receive any funds. To date, of the 422,558 applications approved, only **22 percent** have been fully funded. Clearly, we have a long way to go to make sure small businesses in the Gulf Coast are up and running again.

I want to make one thing clear. The agency's poor response to Katrina victims was not due to the severity of the storm or any unanticipated factors. The SBA failed Gulf Coast entrepreneurs due to poor planning, lack of training and improper distribution of resources.

This was unacceptable and cannot happen again. What I have appreciated about Administrator Preston is that he has recognized that changes must be made. Today we will review those changes. The goal must be to ensure SBA is prepared to provide assistance the next time a disaster like Katrina occurs.

The GAO report gives insight into where the agency is and what modifications have been made. As of today, the SBA has not fully implemented key elements of a disaster planning program, such as disaster simulation, office space requirements, and proper staffing. It also unclear if the backlog problem has been corrected or if it would re-occur in future large-scale disasters.

Today, we will hear from small business owners and state officials who have seen first hand the successes and failures under both the old and new system. They will give their insight about the disaster program and what needs to be done so it better serves our nation's small businesses.

Small businesses are the largest job creators and spur economic growth. There is no question that the Gulf region is still rebuilding and that entrepreneurs will play a critical role in that process. If we want businesses to make a full recovery then we must have a well equipped disaster loan program. It is crucial the federal government does not fail entrepreneurs the next time there is a disaster.

I look forward to hearing the testimony of today's witnesses.

Thank you.

U.S. House of Representatives
SMALL BUSINESS COMMITTEE
Representative Steve Chabot, Republican Leader

February 14, 2007

Opening Statement of Ranking Member Steve Chabot

Disaster Relief and Access to Capital Legislation

I would like to thank Chairwoman Velazquez for holding this hearing on Disaster Relief and Access to Capital legislation. I also thank our witnesses here today for taking time to share their thoughts and experiences regarding these matters, especially David Main, a constituent from my district who traveled from Cincinnati to be with us today. Already this Congress we have held hearings on both the SBA's response to the Gulf Coast Hurricanes Small Businesses access to capital through SBA programs. During these hearings, the committee had the opportunity to hear the experiences of those who have used these programs.

After hearing these personal stories it became even more apparent that some adjustments need to be made to SBA programs. For instance, I strongly believe we need to closely evaluate ways to expand 7(a) and 504 program loan opportunities to small business owners in rural area and urban areas. However, it is important to note that this should be accomplished without reintroducing the burdensome appropriations which the SBA was previously dependent upon. Furthermore, I feel that veterans who choose to open a business deserve every opportunity to be successful entrepreneurs in their new lives as private citizens, and the SBA should be able to assist them. While this should also be done in a fiscally responsible manner, the terms of SBA 7(a) loans for veterans should reflect their selfless contribution to the armed forces. Additionally, the SBA would be well served with the creation of new size definitions, something that has been neglected in previous years.

Also of great interest to the committee is the rethinking of procedures used by the SBA in the event of a disaster in the United States, which may or may not be similar to that which struck the gulf coast in the late summer of 2005. Reevaluation of disaster plans including SBA coordination with FEMA and the mobilization of a 'stand by' personnel force to process disaster loans is crucial for those who will be dependent on the SBA disaster loan program in the future.

The legislation we will discuss today contains issues that are paramount for many existing Small Businesses, those who dream of starting their own business, and others who will have the misfortune in the future of facing a major catastrophe. I look forward to working with Chairwoman Velazquez and taking a close look at these SBA programs.

Statement of Rep. Charlie Melancon

House Small Business Committee

Full Committee Hearing: *SBA's Response to the 2005 Gulf Coast Hurricanes*

Good morning Chairwoman Velazquez and Members of the Committee. Thank you for the opportunity to speak about SBA's response to Hurricanes Katrina and Rita.

My Congressional district spans the destructive path of both these storms. Early on the morning of August 29, 2006, Hurricane Katrina made landfall in South Plaquemines Parish. Subsequent levee breeches flooded much of Plaquemines and St. Bernard Parishes, along with the City of New Orleans. Less than one month later, Hurricane Rita made landfall near the Texas-Louisiana border. In my district, the powerful storm surge resulted in extensive flooding in Iberia, St. Mary, and Terrebonne Parishes, along with much of coastal Louisiana.

Today's hearing focuses on one of many facets of federal government failure both before and after these storms. In the weeks and months following the storms, critical small business grant and loan assistance was delayed. Our economy continues to suffer as a result. We may never be able to pinpoint an exact number of jobs lost to inaction or a lack of assistance. However, I have witnessed many instances where small business owners have been frustrated to the point of giving up on the SBA, and I hope that we can work together to change the negative perception that currently exists towards several SBA programs.

As time moves on, we are beginning to quantify some of the missed opportunities following the 2005 hurricane season. For instance, nine months after Katrina and Rita, in May 2006, the SBA had disbursed only 14% of the $9.7 billion in loan dollars that was approved for disaster assistance. Even today, only 38% of loan applications have been approved and funded.

Immediately following the storms an understaffed, poorly managed, and poorly trained– particularly in customer service– Administration effectively discouraged small business owners from applying for business or home loans. In December 2005 the backlog for loan verification and processing was, on average, over one and a half months. In many instances, the wait was much longer. Inadequate and inaccurate communication from SBA employees kept many customers from finishing applications. Many clients lost paper business records in the storms, creating an additional hurdle for SBA employees that were not able to adjust for these storm-inflicted realities.

How do we make SBA better? One of the first issues that must be addressed is staffing. SBA's unwillingness to immediately and effectively delegate responsibility to qualified lenders created a critical choke point in loan disbursements following the hurricanes. To address this issue, today I am joining my colleague Richard Baker to introduce the "Small Business Disaster Response and Loan Improvements Act of 2007". This legislation will improve upon the less successful Gulf Opportunity Loan pilot program administered by SBA. It will allow for larger maximum loan amounts and a more streamlined application process administered by SBA approved lenders.

Beyond staffing, Congress must take a close look at the laws and regulations that currently govern the SBA's disaster loan programs. SBA's unwillingness or inability to provide maximum flexibility in the administration of disaster loans continues to hamper recovery efforts in Louisiana. Specifically, home-grown and family-run businesses, such as those in the shrimping industry in South Louisiana, often do not fit the mold of current SBA loan qualifications. In the resourceful, self-sufficient economy in South Louisiana, often-times the best and only mechanic or tow-boat for these shrimping vessels are the owners themselves, or a family member. Community express loans should allow eligibility for commercial fishermen.

SBA's current Physical Disaster Loan program allows for a waiver of the $1.5 million loan limit. This waiver is reserved for businesses that are determined to be a "major source of employment" before the disaster. However, in a disaster the magnitude of Katrina or Rita, SBA should also allow for waivers for businesses that *will be* a "major source of employment" following the storm. I am aware of instances where existing business owners could greatly expand or re-focus existing businesses to meet strong post-storm demand. However, because these opportunities did not fit the normal SBA disaster rules, they were turned away.

A final recommendation for making the current and future disaster recoveries better would be to allow more flexibility for loan use in conjunction with home-owners assistance grants. Home-owners in South Louisiana who took the initiative to apply for SBA loans following the hurricanes are now being penalized for this action. If these home-owners qualify for Louisiana's Road Home rebuilding grants, they must use the Road Home money to pay down their SBA loan. This often leaves these storm victims with a larger financial burden than they would have otherwise.

In closing, thank you for the opportunity to speak this morning. Chairwoman Velazquez, I look forward to working with you and our colleagues to enact common sense, meaningful reform to current SBA disaster loan programs.

Statement of Representative Richard H. Baker

before the House Small Business Committee
on the Small Business Disaster Relief Programs
February 14, 2006

Madame Chairwoman and Members of the Committee:

I welcome the opportunity to appear before you to discuss small business disaster lending. Further I appreciate the Committee's decision to hold this hearing as it I believe it is essential that Congress act quickly to improve the small business disaster loan program.

My home state of Louisiana and the Gulf Coast region were devastated by the effects of Hurricanes Katrina and Rita. At the broadest level, the Federal Emergency Management Agency (FEMA) had designated 169 counties or parishes in four states as eligible for some form of disaster assistance; employment in those areas totaled about 5.8 million jobs in 2004. The 86 counties or parishes classified as "most affected" by FEMA represent 2.4 million jobs. Wages in these places totaled $76.7 billion in 2004. Overall unemployment attributable to the 2005 hurricanes is now estimated to be between 300,000 and 400,000. Recovery will require significant expenditures on repairs, rebuilding, and equipment replacement, not to mention lost inventory.

Along with our Gulf Coast neighbors we have worked hard to recover from the destruction and we appreciate the generosity and support of our fellow Americans. We could spend this morning criticizing the performance of the SBA's disaster lending program. However we must also look for solutions and ways we can improve upon the current lending structure that also recognizes that we must be accountable to taxpayers across our nation. After a disaster our businesses need immediate capital, they cannot wait months for a loan approval and the disbursement of funds.

Louisiana is state that relies heavily on our small businesses. We do not have a large corporate presence, but instead have long taken pride in our small businesses that employ the vast majority of our citizens. Ninety percent of our workers are employed by

businesses with 30 or less employees. Small business must recover in order for our state to survive. We need a cost-effective way to quickly deliver disaster loans.

I will soon introduce legislation with my colleague Rep. Melancon that will allow private banks to issue SBA disaster loans to small businesses. This legislation will make the SBA disaster lending more effective and responsive to small businesses by accomplishing several things. First, private lenders work would with SBA to have application forms and requirements in place before a disaster strikes. When a disaster is declared lenders are able to work within a pre-approved framework with their customers or new customers to go through the application process and if approved, get the business the capital they need to survive and recover quickly. Second, the private lenders have the experienced underwriting personnel who are already familiar with the SBA program and requirements. This means that the SBA would not have to hire and train hundreds of additional employees. Finally, the funds could be quickly disbursed to the customer without having to wait months for the process to be complete.

Business continuity and recovery must be timely in order to jump start the Gulf Coast's economy. Residents in the Gulf Coast need small businesses that are open and are in fact ready for business. There is still great uncertainty for many evacuees about whether or not they will return and many residents are stilling deciding whether or not they will stay in the area. If rebuilding in our area does not occur soon we will continue to lose residents. Obviously this is a source of great frustration because when we lose population, we have less opportunity to grow and improve our economy.

Conclusion

I believe that the SBA employees worked very hard in response to the challenges and demands of an overwhelming crush of applications from residents across the Gulf Coast region. However, our response to our small business community was not acceptable. Congress can make the SBA's disaster loan program better prepared to address serious disasters by partnering with SBA lenders. Experienced lenders can offer the support necessary to aid the small businesses that are often the only source of products, services

and jobs in an affected community. Our small business owners have endured destruction and they deserve our attention and support.

Thank you. I would be happy to answer any questions you might have.

Rep. Bruce Braley
Opening Statement
Full Committee Hearing: SBA's Response to 2005 Gulf Coast Hurricanes
February 14, 2007

Thank you Madame Chairwoman, and thank you for holding this hearing. It's about time we take a long, hard look at this nation's response to the Gulf Coast hurricanes, particularly focused on how small businesses have fared since then. We have a lot to learn, and hopefully today we will learn some things that will help us be better prepared next time.

Tens of thousands of businesses were destroyed by the Gulf Coast hurricanes, and economic damages have been estimated at well over $150 billion. That region's small businesses have depended on the Small Business Administration to help them regroup from this catastrophe. More than a year later, many of them are still depending on the Small Business Administration. In fact, many of them are still waiting in line at the SBA. That line needs to move a little faster.

By looking at this country's response to the big disasters, we can gauge how effective we are at responding to the disasters of less magnitude. In Iowa we have ice storms, flooding, and tornadoes. Thankfully, they have not reached Katrina proportions. However, these disasters have major and substantive impacts on our communities, and I want to make sure this Administration is prepared. Today, I hope to hear that the Small Business Administration recognizes its shortfalls from the Gulf Coast response, is learning some lessons, and is applying these lessons to its disaster-response efforts nationwide. This country's small businesses needs to know that when disaster strikes, this Administration will not abandon them.

Thank you Madame Chairwoman, and thank you to the witnesses for coming in today.

HOUSE SMALL BUSINESS COMMITTEE HEARING REGARDING GAO REPORT TO CONGRESS: SMALL BUSINESS ADMINISTRATION; ACTIONS NEEDED TO PROVIDE MORE TIMELY DISASTER ASSISTANCE FEBRUARY 14, 2007

Testimony of
Administrator Steven C. Preston

Good Morning Chairwoman Velazquez, Ranking Member Chabot and distinguished members of the Committee. Thank you for inviting me to discuss the Government Accountability Office's Report entitled *Small Business Administration, Agency's Response to Gulf Coast Hurricanes Highlights Need to Enhance Preparedness for Future Disasters*, and what the SBA has done to reengineer our Disaster Assistance Program following the Gulf Coast Hurricanes in 2005. During my confirmation hearing, I pledged to address the challenges the Agency faced in its disaster operation as job number one, and I appreciate the ability to provide you with a status report today.

The GAO report makes two primary recommendations: (1) develop timeframes for completing elements of the disaster management plan, and (2) further assess if the use of disaster simulations and models would enhance the Agency's disaster response process. The SBA concurs with these recommendations and has already made progress in addressing them. While the GAO report addresses certain factors important to improving the agency's preparedness, other factors, which have been the focal point of the agency's recent reform efforts, have been essential to addressing the needs of remaining Gulf Coast disaster borrowers and are more critical to an effective response longer term. Therefore, they have been the priority of the agency. Those items along with the agency's progress on the GAO recommendations are addressed in this testimony.

GAO recommends that the SBA develop timeframes for completing key elements of the disaster management plan and long-term strategy for acquiring adequate office space. We have completed major portions of the disaster response plan and have established timelines for the remaining key elements. An important element of that plan may include leveraging the private sector to provide assistance to small businesses and homeowners in the aftermath of a catastrophic disaster event. There is proposed legislation to support this private sector involvement, and we look forward to discussing such possibilities with the Committee.

GAO recommends that the agency assess whether the use of disaster simulations or catastrophic models would enhance the agency's disaster planning process. We are

making that assessment. We will also continue to participate in federal disaster response and recovery exercises and explore the possibility of conducting simulations specifically to address SBA's preparedness and response to catastrophic events. Our initial review of catastrophic risk models reveal that they are primarily used in the private sector, particularly by insurance companies, to manage risk. Generally, these models provide the probability of certain events occurring within a 100 year period and the potential loss from such events.

While addressing these issues will help improve SBA's preparedness, the most critical aspects of preparedness relate to the efficiency and effectiveness of the Agency's loan processing operations. Does the SBA have the systems capacity to handle a catastrophic disaster? Are the processes structured to provide a rapid, supportive response to borrowers? Are borrowers receiving funds in time to meet their rebuilding needs? Having effective operational processes supported by automation will dramatically improve productivity of our workforce and SBA's responsiveness to borrowers, and therefore, the Agency's ability to handle major disasters.

Therefore, I would like to discuss both recent operational improvements at the agency, and progress we have made related to facilities capacity and workforce capacity, which are two issues cited in the GAO Report.

- **Expanded Facilities.** In response to the Gulf Coast hurricanes the agency secured over 240,000 square feet of space of temporary space in multiple locations across the country to supplement its permanent space of approximately 300,000 square feet. Plans are currently underway to retain approximately 100,000 sq. ft of this temporary space to provide additional permanent surge capacity at our Fort Worth processing center. This will provide space to handle the surge requirements while allowing time for the Agency to work with GSA in obtaining any necessary additional space. We will also work with GSA to identify and maintain a current listing of available facilities that may be acquired in the event of a catastrophic event.

- **Upgraded System Capacity**. To accommodate a larger workforce to process loans, SBA has expanded the capacity of the Disaster Credit Management System (DCMS) to support a minimum of 8,000 concurrent users. This expansion represents four times the peak usage during the 2005 Gulf Coast Hurricanes. The system also enables users to work remotely, thus expanding the geographic alternatives for recruiting the workforce and using district and regional assets.

- **Operational Reengineering and Oversight.**
  Because of significant issues the agency faced this summer, the Agency kicked off an initiative to understand and address operational problems. First, we listened hard to our customers, who were experiencing the difficulties. Next, we listened to our employees who were close to the action to get their perspective. Then we dug deep into the operational processes where we saw a number of

issues leading to high error rates, steep backlogs in critical processes and decision-making bottlenecks. This review led to a full redesign of it's internal production and support services operations by moving from a production line where many functions operated without sufficient coordination across functions to integrated teams with case managers, attorneys, loan experts, and other support staff working together in a collaborative unit on cases assigned to each team.

As a result of the reengineering effort we established a new process and as our first step we called all our borrowers, over 94,000 people. This accomplished two things: (1) introduce them to the new process where they would have a single relationship manager as a point of contact and (2) ensure we understood their status so we could provide the right kind of support. This new process has yielded improved coordination and communication not only with the disaster victims but also between employees. Integrated teams accounted for faster response times, decreased error rates, and improved customer service and support. Each borrower is assigned a case manager who provides more personal support, assisting the disaster victim in explaining the process, answering questions, and clarifying outstanding issues which has resulted in less confusion, a reduction in errors, and a minimization of duplicative or additional work.

This outreach also enabled us to build a data base so we could track all of the issues that our customers have and work to address them better. As an example of this, the data base showed us that our customers were having trouble obtaining title and deed records from their local clerk's offices. To better assist our customers, SBA has placed employees in the land records office right in Orleans Parish, and we have reached out to other parishes and counties offering the same support.

Our new process allowed us to overcome some significant challenges to our service capabilities. A key example of the challenges we faced was in our critical loan modifications process. This summer we had a backlog of 50,000-80,000 loans with an average age of over 70 days. That backlog was a major cause in the delays we experienced in disbursing funds. Today our modifications in process are fewer than 4,000 and the average age is now eight days.

By investing thousands of hours to fully reengineer our process we were able to eliminate backlogs, dramatically reduce response times, and improve the support we give disaster victims throughout the process. These are improvements that will have a lasting effect on our future ability to respond. Additional new tools and methods are improving the agency's preparedness:

- **Expedited Referrals to Grant Providers.** Focusing on the need to render more decisions in a timely and efficient manner, SBA is using tools to enable it to refer applicants to grant providers much more quickly, with less work for the applicant and a significantly reduced processing burden for SBA. As a result, SBA not only can process a larger amount of loans in a shorter period of time, but can refer those applicants determined eligible for SBA disaster loans for possible grant

assistance much sooner. This improvement has reduced the volume of files pending a decision, minimized the aging of such files and eased the processing burden on DCMS.

- **Business Intelligence Tools.** The expanded use of performance metrics and reengineering tools significantly improves the ability of management to establish clear timelines for initiatives, clarify performance goals, recognize individual accountability, and provide greater insight into the issues that we must address as they arise.

- **Enhanced Disaster Workforce.** SBA's Disaster Assistance capability expands and contracts in size based on the level of disaster activity. Prior to the Gulf Coast Hurricanes making landfall, SBA had about 800 employees on the payroll but quickly surged to over 4,300 employees in response to these unprecedented storms. Today SBA's Disaster Loan Program has roughly 2,200 employees across all key functions. Recognizing the benefits and effectiveness of the ability to immediately supplement its workforce, the Agency expanded its Disaster Reserve Corps. Currently, SBA has selected approximately 750 employees in this expansion and continues to add personnel to the Reserve Corps. This capability allows the Agency to activate this specialized group of trained personnel to report for duty within 48 hours. The number of trained employees on board and in the Reserve Corps increases the Agency's capacity to quickly respond to disasters, including catastrophic events in 2007 and beyond.

- **Partnered with Private Sector.** As a result of the unprecedented application volume received, SBA created the Disaster Loan Partners Initiative and awarded three private sector contracts to assist with SBA's loan processing and loan closing activities. This unique partnership with the private sector provides the Agency with additional experienced personnel to enhance program delivery to disaster victims. This model can be expanded to include additional service providers which can support various aspects of the lending operations. SBA is actively evaluating the alternatives for expanding private sector support in serving the needs of disaster victims.

- **Leveraged SBA's Nationwide Infrastructure.** During the Gulf Coast Hurricanes response, the Agency utilized SBA's nationwide District Office infrastructure to handle increased disaster activity. Additionally, the Agency has implemented an initiative to utilize District employees in future disasters for activities such as processing support and coordinating local resources through SBDCs, Chambers of Commerce, and other local professional and charitable organizations to improve outreach and accelerate response in the field.

- **Bolstered Forecasting Ability and Risk Monitoring Procedures.** SBA has enhanced its capability to immediately forecast application volumes when disasters strike. The new model – which includes a flexible tool for forecasting purposes – provides a more robust methodology for predicting application volume

based on assets at risk and disaster characteristics thus allowing SBA to gauge its response to a catastrophe. Based on current capacity status systems, facilities, and trained personnel at the time of the disaster, the models permit SBA to determine the level and method of escalation necessary to respond in a timely and effective manner. Recognizing the benefits of forecasting, SBA is reviewing external disaster models to determine the value of linking the expected scope of potential disasters with our preparedness estimates.

- **Developed Disaster Scalability Preparedness Tool.** We now are capable of determining resource needs – financial, human capital, and logistics – required to maximize SBA response against a number of different application volume scenarios. The Agency is refining detailed action plans to determine the appropriate resource needs outlined in each scenario and to establish protocols for action to respond accordingly.

We are seeing the benefit of our new processes in more recent disasters where 98 percent of our loan approvals are being completed within 14 to 16 days. Nonetheless, we know we still face challenges. We continue to focus on better training for our employees so they can serve our customers' needs. We still have issues to address in improving our information technology infrastructure. We have put metrics and mechanisms in place to identify issues in a timely manner and address them as they arise. But most importantly, we have tools and methods in place for greater interaction with our customers.

While this has improved our ability to respond we continue to look forward to both completing the task at hand and preparing for future events. As we look to the coming months, our efforts continue to focus on a number of activities:

1. Ensuring we are responsive in providing the states (LA, MS) with information to support their grant programs.

2. Completing the process reengineering work and continuing to improve automation and application processing to ensure that it is fully in place for future disasters.

3. Documenting detailed surge plans, so that we have very clear, well-documented road maps and implementation models in place, based on the size and nature of the catastrophe.

And;

4. Exploring ways to work with the private sector to determine whether they can assist us in providing more efficient and effective support.

In closing, thank you for having me here to testify. The 2005 hurricanes overwhelmed disaster response at all levels, certainly SBA was no exception. Our people worked – often around the clock to try to help the disaster victims whose lives were torn

apart by the hurricanes. Those are the same people who fixed the process and are, today, enabling SBA to play its part in rebuilding the Gulf while simultaneously improving our ability to respond to disasters in the future. I am very thankful for their dedication and their resolve.

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business, House of Representatives

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SMALL BUSINESS ADMINISTRATION

Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness

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

GAO-07-484T

February 14, 2007

GAO
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Highlights

Highlights of GAO-07-484T, a testimony before the Committee on Small Business, House of Representatives

SMALL BUSINESS ADMINISTRATION

Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness

Why GAO Did This Study

The Small Business Administration (SBA) helps individuals and businesses recover from disasters such as hurricanes through its Disaster Loan Program. SBA faced an unprecedented demand for disaster loan assistance following the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which resulted in extensive property damage and loss of life. In the aftermath of these disasters, concerns were expressed regarding the timeliness of SBA's disaster assistance.

GAO initiated work and completed two reports under the Comptroller General's authority to conduct evaluations and determine how well SBA provided victims of the Gulf Coast hurricanes with timely assistance. This testimony, which is based on these two reports, discusses (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2) factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

GAO visited the Gulf Coast region, reviewed SBA planning documents, and interviewed SBA officials.

What GAO Recommends

GAO recommends that SBA take several steps to improve its disaster preparedness, and SBA agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-484T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

GAO identified several significant system and logistical challenges that SBA experienced in responding to the Gulf Coast hurricanes that undermined the agency's ability to provide timely disaster assistance to victims. For example, the limited capacity of SBA's automated loan processing system—the Disaster Credit Management System (DCMS)—restricted the number of staff who could access the system at any one time to process disaster loan applications. In addition, SBA staff who could access DCMS initially encountered multiple system outages and slow response times in completing loan processing tasks. SBA also faced challenges training and supervising the thousands of mostly temporary employees the agency hired to process loan applications and obtaining suitable office space for its expanded workforce. As of late May 2006, SBA processed disaster loan applications, on average, in about 74 days compared with its goal of within 21 days.

While the large volume of disaster loan applications that SBA received clearly affected its capacity to provide timely disaster assistance to Gulf Coast hurricane victims, GAO's two reports found that the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that the agency received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider disaster scenarios that were more severe or use the information available from disaster simulations (developed by federal agencies) or catastrophe models (used by insurance companies to estimate disaster losses). SBA also did not adequately monitor the performance of a DCMS contractor or completely stress test the system prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning prior to the Gulf Coast hurricanes for other logistical areas, such as workforce planning or space acquisition, at either the headquarters or field office levels.

In the aftermath of the Gulf Coast hurricanes, SBA has planned or initiated several measures that officials said would enhance the agency's capacity to respond to future disasters. For example, SBA has completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with just 1,500 for the Gulf Coast hurricanes. Additionally, SBA initiated steps to increase the availability of trained and experienced disaster staff and redesigned its process for reviewing loan applications and disbursing funds. However, SBA has not established a time line for completing key elements of its disaster management plan, such as cross-training agency staff not typically involved in disaster assistance to provide back up support in an emergency. SBA also has not (1) assessed whether its disaster planning process could benefit from the supplemental use of disaster simulations or catastrophe models and (2) developed a long-term strategy to obtain suitable office space for its disaster staff. While SBA agreed with GAO's report recommendations to address these concerns, it remains to be seen how comprehensive the agency's final disaster plan will be and how the agency will respond to a future disaster.

Madam Chairwoman and Members of the Committee:

I am pleased to have the opportunity to be here today to discuss the Small Business Administration's (SBA) response to the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which caused more than 1,400 deaths and more than $80 billion of estimated property damages. While SBA is generally known for the financial support it provides to small businesses, the agency also plays a critical, if less publicized role, in assisting the victims of natural and other disasters. Specifically, SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, and businesses of all sizes recover from disasters such as earthquakes, hurricanes, and terrorist attacks. Due to the damage associated with the Gulf Coast hurricanes, SBA faced unprecedented demand for its disaster loan services and, 9 months following the hurricanes, had approved nearly 150,000 such loans totaling nearly $10 billion. However, concerns have been expressed that SBA's response to the hurricanes was slow, leaving many disaster victims without the timely assistance that they needed.

My statement today is based on two reports that we issued under the Comptroller General's authority to initiate reviews of federal programs. The first report, which was released in July 2006, discussed SBA's planning for and implementation of the Disaster Credit Management System (DCMS), which the agency uses to process disaster loan applications.[1] The second report, which is being released today, discusses SBA's disaster planning for other logistical areas, such as hiring and training a capable workforce and acquiring necessary office space.[2] I note that these reports are part of a larger effort by GAO to assist Congress in assessing the response of federal, state, and local agencies to the Gulf Coast hurricanes and to identify steps that such organizations could take to improve the provision of assistance and services to the victims of future disasters.[3]

[1]GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, GAO-06-860 (Washington, D.C.: July 28, 2006).

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

[3]See, for example, GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of the Nation's Preparedness, Response, and Recovery System*, GAO-06-618 (Washington, D.C.: Sept. 6, 2006).

In my testimony, I will discuss (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2) factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

To address these objectives, we visited the Gulf Coast region, reviewed documents related to SBA's acquisition and implementation of DCMS, reviewed reports that discuss disaster planning, analyzed relevant SBA planning documentation, and interviewed disaster planning experts and SBA officials in headquarters and field offices. We conducted the work on our reports from November 2005 through January 2007 and in accordance with generally accepted government auditing standards.

In summary:

- We identified several significant system and logistical challenges SBA experienced in responding to victims of the Gulf Coast hurricanes that compromised the agency's ability to provide timely disaster assistance. First, due to DCMS's limited capacity, the number of staff who could concurrently access the system to process disaster loans was restricted. Further, SBA staff who were able to access DCMS often encountered system outages and slow response times. Second, SBA faced challenges in training and supervising thousands of mostly temporary employees hired to process loan applications and encountered difficulties in obtaining suitable office space for the expanded workforce. As a result of these and other challenges, SBA averaged about 74 days to process disaster loan applications, as of late May 2006, compared with the agency's goal of processing applications within 21 days.

- While the unprecedented volume of disaster loan applications clearly affected SBA's capacity to provide timely assistance to Gulf Coast hurricane victims, the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the maximum user capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that it received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider any disaster scenarios that were more severe or use the information available from disaster simulations or

catastrophe models to help design DCMS's capacity.[4] SBA also did not adequately monitor a DCMS contractor or completely stress test DCMS prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning for other logistical issues, such as workforce or space acquisition planning, prior to the Gulf Coast hurricanes at either the headquarters or field office levels.

- In the aftermath of the Gulf Coast hurricanes, SBA has planned or initiated several measures that officials said would enhance the agency's capacity to respond to future disasters. For example, SBA officials said that the agency has completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes. Additionally, SBA initiated measures or established plans to address the logistical challenges that it faced in responding to the disasters, such as taking steps to increase the availability of trained and experienced disaster staff. However, we have also identified several apparent limitations in SBA' disaster planning process, including that the agency has not established time lines for completing key elements of the plan, assessed whether the supplemental use of simulations and models would enhance the planning process, and developed a long-term strategy to obtain suitable office space in a disaster situation.

We recommended in our July 2006 report that SBA take several actions to enhance DCMS, such as reassessing the system's maximum user capacity in light of information available from catastrophe risk modeling firms and disaster simulations. As I discussed earlier, SBA officials said that DCMS's capacity has been enhanced. We also recommended that SBA strengthen its DCMS contractor oversight and further stress test the system. In the report we are releasing today, we recommended, among other things, that SBA develop time frames for completing key elements of its disaster management plan. SBA agreed with these recommendations. However, it remains to be seen how comprehensive the agency's final disaster management plan will be and how it will help SBA respond to a future disaster.

[4]Federal agencies and other organizations have developed assessments of the potential destructive consequences of varying disaster scenarios, which are intended to help federal, state, and local agencies enhance their disaster planning. Moreover, many insurance companies and state entities that provide catastrophe insurance coverage currently use computer programs offered by several modeling firms to estimate the financial consequences of various natural catastrophe scenarios.

Background

SBA was established by the Small Business Act of 1953 to fulfill the role of several agencies that previously assisted small businesses affected by the Great Depression and, later, by wartime competition. SBA's stated purpose is to promote small business development and entrepreneurship through business financing, government contracting, and technical assistance programs. In addition, SBA serves as a small business advocate, working with other federal agencies to, among other things, reduce regulatory burdens on small businesses.

SBA also provides low-interest, long-term loans to individuals and businesses to assist them with disaster recovery through its Disaster Loan Program—the only form of SBA assistance not limited to small businesses. Homeowners, renters, businesses of all sizes, and nonprofit organizations can apply for physical disaster loans for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. Small businesses can also apply for economic injury disaster loans to obtain working capital funds until normal operations resume after a disaster declaration. SBA's Disaster Loan Program differs from the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP). For example, a key element of SBA's Disaster Loan Program is that the disaster victim must have repayment ability before a loan can be approved whereas FEMA makes grants under the IHP that do not have to be repaid.[5] Further, FEMA grants are generally for minimal repairs and, unlike SBA disaster loans, are not designed to help restore the home to its predisaster condition.

In January 2005, SBA began using DCMS to process all new disaster loan applications. SBA intended for DCMS to help it move toward a paperless processing environment by automating many of the functions staff members had performed manually under its previous system. These functions include both obtaining referral data from FEMA and credit bureau reports, as well as completing and submitting loss verification reports from remote locations.

[5]FEMA grants are also not available to businesses.

DCMS's Limited Capacity and Difficulties in Other Logistical Areas Impeded SBA's Response to the Gulf Coast Hurricanes

Our July 2006 report identified several significant limitations in DCMS's capacity and other system and procurement deficiencies that likely contributed to the challenges that SBA faced in providing timely assistance to Gulf Coast hurricane victims as follows:

- First, due to limited capacity, the number of SBA staff who could access DCMS at any one time to process disaster loans was restricted. Without access to DCMS, the ability of SBA staff to process disaster loan applications in an expeditious manner was diminished.
- Second, SBA experienced instability with DCMS during the initial months following Hurricane Katrina, as users encountered multiple outages and slow response times in completing loan processing tasks. According to SBA officials, the longest period of time DCMS was unavailable to users due to an unscheduled outage was 1 business day. These unscheduled outages and other system-related issues slowed productivity and affected SBA's ability to provide timely disaster assistance.
- Third, ineffective technical support and contractor oversight contributed to the DCMS instability that SBA staff initially encountered in using the system. Specifically, a DCMS contractor did not monitor the system as required or notify the agency of incidents that could increase system instability. Further, the contractor delivered computer hardware for DCMS to SBA that did not meet contract specifications.

In the report that we are releasing today, we identified other logistical challenges that SBA experienced in providing disaster assistance to Gulf Coast hurricane victims. For example, SBA moved urgently to hire more than 2,000 mostly temporary employees at its Ft. Worth, Texas disaster loan processing center through newspaper and other advertisements (the facility increased from about 325 staff in August 2005 to 2,500 in January 2006). SBA officials said that ensuring the appropriate training and supervision of this large influx of inexperienced staff proved very difficult. Prior to Hurricane Katrina, SBA had not maintained the status of its disaster reserve corps, which was a group of potential voluntary employees trained in the agency's disaster programs. According to SBA, the reserve corps, which had been instrumental in allowing the agency to provide timely disaster assistance to victims of the September 11, 2001

terrorist attacks, shrank from about 600 in 2001 to less than 100 in August 2005.[6]

Moreover, SBA faced challenges in obtaining suitable office space to house its expanded workforce. For example, SBA's facility in Ft. Worth only had the capacity to house about 500 staff whereas the agency hired more than 2,000 mostly temporary staff to process disaster loan applications. While SBA was able to identify another facility in Ft. Worth to house the remaining staff, it had not been configured to serve as a loan processing center. SBA had to upgrade the facility to meet its requirements. Fortunately, in 2005, SBA was also able to quickly reestablish a loan processing facility in Sacramento, California, that had been previously slated for closure under an agency reorganization plan. The facility in Sacramento was available because its lease had not yet expired, and its staff was responsible for processing a significant number of Gulf Coast hurricane related disaster loan applications.

As a result of these and other challenges, SBA developed a large backlog of applications during the initial months following Hurricane Katrina. This backlog peaked at more than 204,000 applications 4 months after Hurricane Katrina. By late May 2006, SBA took about 74 days on average to process disaster loan applications, compared with the agency's goal of within 21 days.

[6]SBA's disaster reserve corps consists of individuals, including retirees and students, who have backgrounds in the agency's disaster assistance programs (e.g., finance and customer support) and who are willing to work on a temporary basis for the agency in an emergency situation. Such individuals must agree to relocate within 40 hours of notification of a disaster situation where their services are required by SBA.

Unprecedented Loan Application Volume and SBA's Limited Disaster Planning Contributed to Challenges in Providing Timely Assistance to Hurricane Victims

As we stated in our July 2006 report, the sheer volume of disaster loan applications that SBA received was clearly a major factor contributing to the agency's challenges in providing timely assistance to Gulf Coast hurricane. As of late May 2006, SBA had issued 2.1 million loan applications to hurricane victims, which was four times the number of applications issued to victims of the 1994 Northridge, California, earthquake, the previous single largest disaster that the agency had faced. Within 3 months of Hurricane Katrina making landfall, SBA had received 280,000 disaster loan applications or about 30,000 more applications than the agency received over a period of about 1 year after the Northridge earthquake.

However, our two reports on SBA's response to the Gulf Coast hurricanes also found that the absence of a comprehensive and sophisticated planning process contributed to the challenges that the agency faced.[7] For example, in designing DCMS, SBA used the volume of applications received during the Northridge, California, earthquake and other historical data as the basis for planning the maximum number of concurrent agency users that the system could accommodate. SBA did not consider the likelihood of more severe disaster scenarios and, in contrast to insurance companies and some government agencies, use the information available from catastrophe models or disaster simulations to enhance its planning process. Since the number of disaster loan applications associated with the Gulf Coast hurricanes greatly exceeded that of the Northridge earthquake, DCMS's user capacity was not sufficient to process the surge in disaster loan applications in a timely manner.

Additionally, SBA did not adequately monitor the performance of a DCMS contractor or stress test the system prior to its implementation. In particular, SBA did not verify that the contractor provided the agency with the correct computer hardware specified in its contract. SBA also did not completely stress test DCMS prior to implementation to ensure that the system could operate effectively at maximum capacity. If SBA had verified the equipment as required or conducted complete stress testing of DCMS prior to implementation, its capacity to process Gulf Coast related disaster loan applications may have been enhanced.

[7]The report we are issuing today (GAO-07-114) discusses the need for federal agencies and other organizations to engage in comprehensive disaster planning based on previous GAO work, reports by other investigative organizations, and the views of disaster planning experts.

In the report we are releasing today, we found that SBA did not engage in comprehensive disaster planning for other logistical areas—such as workforce or space acquisition planning—prior to the Gulf Coast hurricanes at either the headquarters or field office levels. For example, SBA had not taken steps to help ensure the availability of additional trained and experienced staff such as (1) cross-training agency staff not normally involved in disaster assistance to provide backup support or (2) maintaining the status of the disaster reserve corps as I previously discussed. In addition, SBA had not thoroughly planned for the office space requirements that would be necessary in a disaster the size of the Gulf Coast hurricanes. While SBA had developed some estimates of staffing and other logistical requirements, it largely relied on the expertise of agency staff and previous disaster experiences—none of which reached the magnitude of the Gulf Coast hurricanes—and, as was the case with DCMS planning, did not leverage other planning resources, including information available from disaster simulations or catastrophe models.

SBA Has Taken Steps to Better Prepare for Future Disasters, but Their Effectiveness Remains to Be Seen

In our July 2006 report, we recommended that SBA take several steps to enhance DCMS, such as reassessing the system's capacity in light of the Gulf Coast hurricane experience and reviewing information from disaster simulations and catastrophe models. We also recommended that SBA strengthen its DCMS contractor oversight and further stress test the system. SBA agreed with these recommendations. I note that SBA has completed an effort to expand DCMS's capacity. SBA officials said that DCMS can now support a minimum of 8,000 concurrent agency users as compared with only 1,500 concurrent users for the Gulf Coast hurricanes. Additionally, SBA has awarded a new contract for the project management and information technology support for DCMS. The contractor is responsible for a variety of DCMS tasks on SBA's behalf including technical support, software changes and hardware upgrades, and supporting all information technology operations associated with the system.

In the report we are releasing today, we identified other measures that SBA has planned or implemented to better prepare for and respond to future disasters. These steps include appointing a single individual to coordinate the agency's disaster preparedness planning and coordination efforts, enhancing systems to forecast the resource requirements to respond to disasters of varying scenarios, and redesigning the process for

reviewing applications and disbursing loan proceeds.[8] Additionally, SBA has planned or initiated steps to help ensure the availability of additional trained and experienced staff in the event of a future disaster. According to SBA officials, these steps include cross-training staff not normally involved in disaster assistance to provide back up support, reaching agreements with private lenders to help process a surge in disaster loan applications, and reestablishing the disaster reserve corps with 750 individuals as of January 2007.

However, the report also discusses apparent limitations we found in SBA's disaster planning processes. For example, SBA has not established a time line for completing the key elements of its disaster management plan, such as cross-training nondisaster staff to provide back up support. In addition, SBA has not assessed whether the agency could leverage outside resources to enhance its disaster planning and preparation efforts, such as information available from disaster simulations and catastrophe models.[9] Finally, SBA had not established a long-term process to help ensure that it could acquire suitable office space to house an expanded workforce to respond to a future disaster.

To strengthen SBA capacity to respond to a future disaster, the report recommends that SBA

- develop time frames for completing key elements of the disaster management plan (and a long-term strategy for acquiring adequate office space); and
- direct staff involved in developing the disaster plan to continue assessing whether the use of disaster simulations or catastrophe models would enhance the agency's overall disaster planning process.

SBA agreed to implement each of these recommendations. However, it remains to be seen how comprehensive SBA's final disaster management plan will be and how effectively the agency will respond to a future disaster.

[8]As described in the report we are issuing today (GAO-07-114), SBA faced a significant backlog in disbursing the funds associated with approved disaster loans in July 2006. SBA has redesigned the loan review and disbursement process in such a way that agency officials believe disbursement performance has been improved significantly.

[9]SBA has contacted FEMA for more information about a catastrophe model that FEMA has developed.

Madam Chairwoman, this concludes my prepared statement. I would be happy to answer any questions at this time.

GAO Contact and Staff Acknowledgments

For further information on this testimony, please contact William B. Shear at (202) 512- 8678 or Shearw@gao.gov. Contact points for our Offices of Congressional Affairs and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony included Wesley Phillips, Assistant Director; Marshall Hamlett; Barbara S. Oliver; and Cheri Truett.

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Secretary Michael J. Olivier Testimony
House Small Business Committee
Wednesday, February 14, 2007, 10AM

Post-Katrina and Rita Small Business Assistance and the SBA in Louisiana

Background

We are all familiar with the numbers recording the unprecedented damage to small businesses from Hurricanes Katrina and Rita – over 80,000 businesses impacted, nearly 11,000 businesses completely destroyed. In Orleans parish alone, 1 in 3 businesses have not reopened since the storm. With small businesses representing over 90% of all commercial enterprises in Louisiana, it was inevitable that the storms would affect these businesses in huge numbers. What these numbers do not reflect is the individual stories behind these small businesses: thousands of groups of dedicated owners and employees that provide jobs, tax revenue, critical services and world-famous diversity across Louisiana. It is for this reason that we have been so focused on assisting these businesses for the past 17 months.

Bridge Loan Program

The first action following the storms that the State took was to set up a Bridge Loan Program, to ensure that businesses could get desperately needed cash, while they waited for insurance payouts and other financing, particularly from the SBA. Our first round of Bridge Loans, financed by State monies, provided nearly $9M in loans to 370 businesses. Later rounds, financed by Federal CDBG funds,

provided an additional $35M to 380 more businesses. Working with local banks, the Bridge Loan program largely accomplished its goal of providing quick capital to struggling operations, with 38% of loans going to woman- or minority-owned businesses, and a first-round repayment rate of over 90%.

The SBA

Unfortunately, the SBA funding that was expected to follow the Bridge Loan program was not as rapid or great as needed, for a number of reasons I will briefly touch on:

- Inadequate and inaccurate communication, leading to confusion about eligibility, timing and process
- Guidelines and requirements that excluded businesses from one or more of the disaster programs
- Inconsistency of application processes coupled with poor customer service and inadequate infrastructure
- Negative publicity leading to some businesses not applying for loans in the first place

For these reasons, only 9,700 SBA business loans out of 51,000 applications have been fully funded to-date, or less than 20%.

Louisiana Small Business Recovery Programs

Following the disaster of 9/11, New York City was allocated over $760M for small business grants and loans:

- $564M Business Recovery Grant Program
- $155M Small Firm Attraction and Retention Grant Program
- $42M Business Recovery Loan Program

Louisiana, on the other hand, received no funding for small business support within the $10.4 billion in funds allocated to Louisiana. The Governor was forced to pull money from other programs in Louisiana when it became apparent that the SBA funding that the Bridge Loan program was meant to lead to was not going to be available to close the extent needed. In December of 2006, the Governor called for the creation of a $138M Business Recovery Grant and Loan Program. Launched in January 2007, this program provides:

- Grants up to $20,000
- 0% loans up to $250,000

And has seen enormous demand including:

- Over 23,000 visits to the Grant and Loan website
- Thousands of businesses in attendance at workshops held throughout the impacted areas of the State
- Over 2,500 applications submitted for grants and loans

Two things are becoming apparent through the implementation of the Business Recovery Grant and Loan Program:

1. Louisiana has the ability to run a small business support program efficiently, transparently and with success on the ground

2. The current program, with its very limited funding – only about 6,000 of the 80,000 impacted businesses can be helped – is not large enough to meet the needs of thousands of additional businesses that are physically and financially exhausted and on the verge of closing their doors

Gulf Coast Back to Business Act

It is with this unmet need in mind that we fully support Senator Landrieu's "Gulf Coast Back to Business Act", which calls for $100M for additional funding for small business grants, $75M of which would go to businesses in Louisiana. Representative Jefferson has introduced the House companion bill with the same provision. We ask that your Committee work closely with the Louisiana Congressional delegation to secure this vital additional funding for grants and loans. The bottom line is that without additional funding as provided in this act, hundreds – perhaps thousands – of small businesses in Louisiana will be forced to close, with devastating consequences for individuals, families and communities across Louisiana.

Looking Forward

I would be remiss not to recognize that since he has come on board in August, SBA Administrator Preston has implemented a number of important changes in the way the SBA does business, such as the handling of cases by teams. While we expect these changes to help in future disasters, where we are today, we

need to get more assistance on the street, now. It is for this reason that additional funding such as the Gulf Coast Back to Business Act is so critical.

Looking forward, in concert with the changes that Administrator Preston is implementing at the SBA, we also need to create a Bridge Loan program that can be rapidly deployed following a disaster, in concert with local banks. Based on our successful – but limited - Bridge Loan program, which was managed by 22 local financial institutions, this program would combine the effectiveness of local know-how with the weight of federal funding.

Road Home Homeowner Assistance Program Challenges with SBA Regulations

One related issue that should be mentioned – because many small business owners are also home owners, is the SBA's current requirement that Road Home grant recipients repay SBA home loans with these funds. This makes no sense – a grant is not a loan – and leaves home owners, many of whom have taken personal capital to sustain their businesses – no better off than they were before. The impact of this requirement – of taking federal disaster grant money for homeowners for repayment of federal disaster loans for homeowners – will reduce by more than a billion dollars the funds available to homeowners to rebuild.

Conclusion

In conclusion I would like to reiterate out immediate needs, and then our hope for the future.

Considering that the critical demand for small business assistance far outstrips our current funding, we fully support Senator Landrieu's Gulf Coast Back to Business Act. We are confident that with our current Business Recovery Grant and Loan program we are demonstrating Louisiana's ability to implement an efficient, transparent and effective program, and look to the Back to Business Act as a means of assisting the thousands of businesses that are beyond the scope of the current effort.

Going forward, we hope that the changes implemented within the SBA will address its previous short-comings, and also urge for further refinements and new programs, including eliminating the requirement for SBA loans to be repaid by Road Home grants, and the addition of a bridge loan program implemented in coordination with local financial partners.

Testimony of

Edward G. Francis

On Behalf of the

AMERICAN **BANKERS** ASSOCIATION

Before the

Small Business Committee

United States House of Representatives

February 14, 2007

Testimony of Edward G. Francis
on behalf of the
American **Bankers** Association
before the
Small Business Committee
of the
United States House of Representatives

February 14, 2007

Chairwoman Velázquez and Members of the Committee, my name is Edward G. Francis. I am Chief Commercial Officer of Hancock Holding Company headquartered in Gulfport, Mississippi. I am pleased to be here today to represent the American Bankers Association (ABA). ABA, on behalf of the more than two million men and women who work in the nation's banks, brings together all categories of banking institutions to best represent the interests of this rapidly changing industry. Its membership – which includes community, regional and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes ABA the largest banking trade association in the country.

Thank you for the opportunity to present the ABA's views regarding the effectiveness of disaster lending by the Small Business Administration (SBA) in the aftermath of the hurricanes that struck the Gulf Coast in the late summer of 2005.

Hancock Holding Company, a certified SBA lender, is a $6 billion, four-bank holding company that has been in existence since 1899. During this tenure, our six CEO's have guided the bank through the Great Depression, Hurricane Camille in 1969, and now Hurricane Katrina. By the afternoon of Monday, August 29, 2005 our management team realized that we had lost our 14-story headquarters building in downtown Gulfport, and that numerous branches along the coast had been

wiped off the map. Many of our branches in the New Orleans area were flooded and would not be occupied again for several months. In addition, we lost our entire computer operations center and our loan and deposit operations shop. Despite all of this devastation, we were able to open some of our branches the very next day to service the needs of our customers.

Even though communications were not available the week after the storm, our associates were nevertheless motivated to show up for work. This is due to the fact that our company's culture is embedded with the notion that we will be the first to open and the last to close after any hurricane. We view banking as a vital service in our communities, much like grocery stores and gas stations. It took weeks before we were able to account for all of our associates, but one by one, and by the grace of God, they were all accounted for and all were willing to do whatever it took to ensure that our customers' needs were taken care of. Many of these associates showed up for work with nothing but the clothes on their backs, having lost everything they owned.

On a personal note, the disaster struck my family particularly hard. From my grandparents, who lived on the Mississippi Gulf Coast, to my parents, brothers and sisters, aunts and uncles, and cousins – all of whom lived in the New Orleans area – we lost a total of 7 homes. Today, we continue to experience first-hand what life is like after Hurricane Katrina. And, like so many other families, we have worked hard to support one another and put the pieces back together again.

In the days after the storm it became very obvious that small business owners had been hit very hard by this disaster. Therefore, we immediately created an outreach program designed to make contact with all of our commercial clients. Our goal was to be sure that they were safe, to better understand their needs, and to get a better grasp of the magnitude of the risk in our portfolios.

Through this outreach program we witnessed a huge demand for loans that were needed for a wide range of purposes such as new equipment, cash for payrolls, and real estate purchases. We also witnessed the entrepreneurial spirit of many small business owners who wanted to take advantage of the cleanup and rebuilding opportunities. Many others wondered whether they would be able to retain their employees and when they could return to their place of business and begin the rebuilding process.

During this time, we immediately recognized the need to partner with the SBA and the economic development organizations of Mississippi and Louisiana. It was evident that we needed to move quickly to help small businesses recover from this disaster. Insurance claims could take months or years to settle – these businesses needed cash immediately. During a series of successive meetings with Hector Barreto (the former head of the SBA) and his staff, we urged Mr. Barreto to develop a plan that would allow banks to make disaster loans with the support and backing of the SBA. Unfortunately, our ideas were never fully incorporated into the SBA's disaster lending program. As my testimony will make clear, the failure of the SBA to allow banks to get more directly involved in disaster lending caused massive delays and backlogs in processing the loan applicants of more than 2 million disaster victims.

The SBA did create the GO Loan program in the aftermath of the Gulf Coast hurricanes, and it proved to be a real help for small businesses. Banks that were already approved Express Loan lenders were authorized to make GO Loans for up to $150,000. These loans carried an 85 percent government guarantee, as opposed to the normal 50 percent guarantee of the Express Loan program. To date, Hancock Bank has made 68 GO Loans for a total of $6,193,483, or an average of $91,080 per loan. However, the cap of $150,000 has proven to be inadequate for the rebuilding needs of many of our clients.

Frustrated by the slowness of the SBA, both Louisiana and Mississippi developed Emergency Small Business Bridge Loan programs. These loans were 100 percent guaranteed, were interest free, were limited to six-month terms, and had a maximum loan amount of $100,000. The total pool of available funds was $30 million for each state. Hancock Bank participated in both of these programs. Needless to say, demand for these loans was incredible and the funding disappeared quickly – demonstrating the need for long-term disaster relief.

The SBA disaster loan program was developed for a very important reason – to provide financial assistance to help homeowners, renters, and businesses of all sizes recover from disasters such as earthquakes, hurricanes, and terrorist attacks. In this capacity, the SBA plays a critical role in bringing the resources of the federal government to bear on individuals and businesses as they seek to reinvigorate their local economies. In fact, the SBA disaster loan program is the primary federal program for long-term private sector recovery, and is the only form of SBA assistance not limited to small businesses.

As important as the SBA's disaster loan program is, the Gulf Coast hurricanes demonstrated that it is not without its flaws. It can, in fact, be significantly enhanced so that the goal of providing financial assistance to disaster victims can be achieved more quickly and efficiently.

In my statement today I would like to make the following points regarding the SBA's lending effectiveness in the aftermath of the devastating hurricanes of 2005.

- ► Significant delays and backlogs in processing SBA disaster loan applications resulted from systemic problems in the SBA's disaster lending program, preventing the SBA from efficiently handling the challenges posed by the Gulf Coast hurricanes quickly and efficiently.

► Banks are uniquely positioned to serve the immediate needs of small businesses and individuals affected by disasters and should be more directly involved in disaster assistance lending.

► A public-private partnership between the SBA and preferred and certified lenders will result in quick and efficient delivery of disaster loans to the greatest possible number of victims, facilitating a speedy economic recovery for areas affected by disasters.

I will address each of these points in greater detail.

Inherent Problems Prevented Efficient Distribution of SBA Disaster Loans

The hurricanes that ravaged the Gulf Coast in the late summer of 2005 dealt an obvious blow to the people and the economy of the region. According to a recent report by the Government Accountability Office (GAO), Hurricanes Katrina, Rita, and Wilma caused nearly $120 billion in property damage. Small businesses were hit especially hard – particularly in Louisiana where small firms with fewer than 500 employees comprised more than 50 percent of the state's non-farm private sector prior to the hurricanes.

Small businesses are the engine of our economy, and capital is the oil that keeps the engine running smoothly. When disaster strikes, the most pressing immediate need is money – money for building materials, for professional waste removal, for wages, and more. Thus, in the aftermath of

the Gulf Coast hurricanes, timely and efficient delivery of disaster recovery loans was, and continues to be, vital for the region's economic recovery. However, several factors combined to prevent the SBA from responding to this need in a timely and efficient manner.

The SBA's disaster loan program is a direct lending program. Loans go directly from the SBA to individuals and businesses at very low interest rates, usually around 4 percent, over a 30-year period. Several steps are involved in the lending process. Applications are pre-screened for acceptability, victims must be evaluated based on their income level and repayment ability, and in some cases losses must be verified. The final stages involve legal review, followed by closing and funds disbursement. A necessary element to the loan processing system is a staff that is experienced in this type of lending.

Under a presidential declaration of disaster, the SBA secures space within Federal Emergency Management Agency (FEMA) disaster recovery centers in order to facilitate distribution of disaster loans. Staff members meet with victims to explain the loan process, distribute applications, and, if requested, assist victims in completing applications.

The GAO report indicates that as of late May 2006, the SBA had distributed more than 2.1 million applications to victims affected by the hurricanes – almost four times the amount distributed after the Northridge, California earthquake in 1994, the single largest disaster the SBA had previously faced. The large volume of loan applications created a pressing need for the SBA to hire additional personnel. In the months following the hurricanes, nearly 2,000 temporary staff members were added to the SBA's rolls.

Hiring temporary staff is not unusual for the SBA. Because of the unpredictable nature of disasters, and the costs associated with keeping people on staff it may not need, the SBA routinely hires and trains temporary staff to help deal with large scale disasters. However, according to the

GAO report, it took roughly 30 days for loan officers without prior SBA experience to become fully productive. Furthermore, the SBA had to secure additional space and equipment to house its increased staff and support loan processing – a process that took somewhere between 30 and 60 days.

Further complicating matters was the inability of the SBA's new Disaster Credit Management System (DCMS), to handle such a high volume of users. According to the GAO report, the SBA began using the new system in January 2005, but established its maximum user capacity based solely on historical data, primarily from the Northridge earthquake. Since none of the available information from catastrophe risk modeling firms or disaster simulations was used, the number of staffers that could access the DCMS system at any one time was limited to a maximum of 1,500 people. This proved insufficient given the large number of loan applications.

The shear volume of loan applications, the time required to bring thousands of temporary staff up to speed, and the capacity limitations of the DCMS proved too much for the SBA's disaster loan program to handle. Loans that once took 30 minutes to process were taking several hours to complete. Backlogs resulted – peaking at 204,000 applications in late December 2005, according to the GAO report. The report further states that victims waited an average of 74 days for the SBA to process their loan applications. This is a far cry from the SBA's stated goal of processing applications within 21 days.

Some mitigating circumstances help explain the backlog. For example, disaster loans for reparation of physical injury require documentation of property damage prior to disbursement. However, the current level of response is still grossly inadequate. As of July 2006 – nearly a full year after the hurricanes – some 120,000 approved disaster loans had either not been disbursed, or had

only been partially disbursed. The failure to quickly provide disaster assistance has stalled recovery and frustrated reconstruction efforts.

Banks Should Be More Directly Involved in Disaster Assistance Lending

As noted, problems with the SBA's disaster loan program prevent the power and resources of the government from being efficiently used to provide direct lending assistance to disaster victims. A practical solution for preventing this from happening again is to integrate banks more fully into disaster lending.

Banks are well-suited for this purpose. Many are already certified SBA lenders and SBA loans comprise an important part of their lending practice. As such, they are already familiar with the rules and procedures of the SBA and are well-positioned to work with the agency toward disaster recovery. Furthermore, small businesses rely on banks as their primary source of credit throughout the country. In fact, half of the banks in the tri-state region affected by Hurricane Katrina have a quarter of their loan portfolios dedicated to small business lending.

Moreover, banks that lend to small businesses know their clients well. They know the character of the management. Their employees are often neighbors with the employees of the small businesses they lend to. Furthermore, many banks are small businesses themselves. In fact, over one-third of the banks in the tri-state region have fewer than 30 employees. In many instances, the relationships that bankers forge with their small business customers becomes a personal one built on mutual trust and understanding.

Thus, small businesses look to banks operating in their communities for leadership as they seek to grow and thrive, and banks have a vested interest in the continual welfare of their communities. The assistance of federal agencies, including the SBA, is an essential part of disaster recovery. However, once these agencies leave, banks remain. As mentioned previously, it is ingrained in the culture of Hancock Bank that we will be the first to open and the last to close after any hurricane, and we created an outreach program immediately after the disasters so that we could thoroughly assess the needs of our business clients. These efforts are undertaken to ensure that the relationships we have built over the years will not be simply swept away with the tides of disaster. Moreover, while we are proud of our accomplishments, we are certain that Hancock Bank is not the only bank in the region that is dedicated to ensuring the continued vitality of its business customers in the aftermath of the Gulf Coast hurricanes.

In fact, bankers have long been in the forefront of efforts to prepare for, cope with, and recover from disasters. This was never more apparent than in the aftermath of the Gulf Coast hurricanes. Bankers not only made financial services available, they provided humanitarian aid and ongoing support for individuals, families, and businesses that were struggling to recover. Bankers personally rose to the occasion, rolled up their sleeves, and lent a hand.

Integrating banks more directly into disaster lending will allow the SBA to take full advantage of the established relationships that banks already have in their communities, and the familiarity many banks already have with SBA lending practices. It will also allow the SBA to rely on the existing expertise and efficiency of bank loan processors, and avoid problems associated with hiring temporary staff that are unfamiliar with SBA loan processing. Capitalizing on these existing assets is the most effective way to get the largest amount of disaster lending into the greatest number of victims' hands in the shortest time possible.

A Public-Private Partnership Promises Greater Disaster Lending Efficiency

The SBA's disaster lending program should be transformed to more closely resemble its 7(a) lending program. The 7(a) program is significantly different from the disaster loan program. Rather than the SBA making loans directly to applicants, under the 7(a) program, banks fulfill the loans and the SBA provides a government guarantee if the loan defaults.

The public-private partnership elements that are inherent in the SBA's 7(a) program should be applied to the disaster lending program. A partnership of this nature will allow the power and resources of the government to combine most effectively with existing bank expertise and relationships. More importantly, it will promote efficient distribution of disaster assistance.

As noted, many banks are already certified SBA lenders and are familiar with SBA rules and procedures. Through the 7(a) program, banks have been very successful in helping many small businesses get started, and the program is responsible for the close relationships that many banks have with their small business clients. Thus, transforming the disaster lending program to more closely resemble the 7(a) program is a natural way to take full advantage of both of these elements.

However, due to the unpredictable nature of disasters and the issues associated with disaster recovery, the program will necessarily be different. Currently, the risk of default is shared by the government and the bank under a 7(a) loan. In most cases, 7(a) loans provide a 50 percent to 75 percent government guarantee if the loan defaults, which places the lender at risk for 25 to 50 percent of the loan principal. For disaster loans, the SBA should guarantee a higher percentage. A 25 to 50 percent risk of default may be acceptable for a bank to bear under a traditional 7(a) loan because the loan can be partially or wholly securitized by the assets of the business. Obviously, disasters often wipe out most, if not all, of the assets of a business. Hence, a higher guarantee by the

government will provide greater incentive for banks to make disaster loans. Even if the guarantee were as high as 85 percent, the 15 percent stake that banks assume would be considerable and would ensure an appropriate level of due diligence in making loans while significantly increasing the flow of funds.

Furthermore, 7(a) loans operate much like a traditional mortgage with monthly payments, and the terms range from 7 to 10 years. Because it can take several months, and sometimes years, for a business to fully recover from a disaster, longer repayment terms are more appropriate for disaster lending. Payments under longer terms would be more affordable for borrowers and would significantly reduce the likelihood of default. Instituting a deferred payment option would also be beneficial. This would allow time for businesses to rebuild and help prevent the cash-flow burden that businesses face in the immediate aftermath of disasters.

Existing SBA loan programs also require some form of collateral. Transforming the disaster loan program to resemble the 7(a) program should be accompanied by a policy that waives collateral requirements for any loan under $250,000. When disasters on the magnitude of the Gulf Coast hurricanes strike, the value of collateral that many small businesses have to offer is greatly diminished. Waiving the collateral requirement would help small businesses that need limited capital and would contribute to the rebuilding process.

Since banks, rather than the SBA, will be making disaster loans directly to victims, fees associated with making loans should also be structured differently. Currently, the SBA exacts a loan guaranty fee from lenders for 7(a) loans. The fee ranges between 2 percent and 3.75 percent, depending on the size of the loan, and may be passed on to the borrower after the lender has made up-front payment to the SBA. Obviously, lowering this fee for disaster lending would result in cost savings for victims. SBA-certified lenders should also be allowed to charge the agency a reasonable

fee for processing disaster loans. A fee of 1 percent to 2 percent would cover banks' costs and banks could capitalize on their existing loan processing efficiency. Relative to the cost to the SBA of hiring and training loan officers and processing loans directly, paying a small processing fee is ***likely to result in an overall savings to the government.***

Employing the principles of public-private partnership that are inherent in the 7(a) program will allow the SBA to optimize its current disaster lending program. But because of the unpredictable nature of disasters, certain elements of the 7(a) program will need to be different. By including the changes described above, the SBA's disaster lending program can be transformed to ensure the most timely and efficient distribution of capital to the greatest number of disaster victims.

Conclusion

The hurricanes that struck the Gulf Coast in the late summer of 2005 not only had a devastating effect on the local economy, they brought to light some serious problems with the SBA's disaster lending program. In order to prevent these problems from resurfacing, the disaster lending program should be modeled on the SBA's 7(a) program and should integrate banks more fully into the disaster lending process. A public private partnership that relies on the experience of bank lenders and the existing efficiency of bank loan processing, offers a cost-effective way to quickly deliver disaster loans and thereby jump start any economy damaged by disasters.

Thank you for your time. I would be happy to answer any questions you might have.

**TESTIMONY OF BRYAN McDONALD, DIRECTOR
OF GOVERNOR HALEY BARBOUR'S OFFICE OF RECOVERY AND RENEWAL
TO THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
FEBRUARY 14, 2007**

Good morning. I'd like to thank the members of the Committee on Small Business for allowing us to tell you about the Small Business recovery that is occurring in our great state. Thank you very much Chairwoman and Ranking Member and distinguished members of the committee for giving me the opportunity to speak with you today.

On August 29, 2005, Hurricane Katrina struck Mississippi a grievous blow. Although the eye of the storm landed at the Mississippi-Louisiana line, that eye was more than thirty miles wide, and Katrina completely devastated our entire coastline, from Pearlington to Pascagoula. The miles upon miles of utter destruction are unimaginable, except to those like many of you who have witnessed it with your own eyes. But this hurricane wasn't just a calamity for the Mississippi Gulf Coast. Its impact reached far inland in our state with hurricane force winds extending more than 200 miles from the Coast.

The storm claimed the lives of more than 230 Mississippians. The combination of the storm's slow speed and the shallow waters off the Mississippi shoreline created a storm surge in excess of 30 feet in some areas. More than 80 miles of Mississippi coastline were completely destroyed by the mixture of high storm surge and strong winds. In her wake, Katrina left literally tens of thousands of uninhabitable, often obliterated homes; thousands of small businesses in shambles; dozens of schools and public buildings ruined and unusable; highways, ports and railroads, water and sewer systems, all destroyed.

Damage along Mississippi's Gulf Coast was widespread, as damage estimates totaled more than $125 billion. The Federal Emergency Management Agency (FEMA) reported that 65,380 homes in south Mississippi were damaged or destroyed. Electricity was lost for 80 percent of the state's three million residents. More than 45 million cubic yards of debris was left in Hurricane Katrina's wake in south Mississippi—more debris than was created by Hurricane Andrew. Hurricane Katrina's effects on Mississippi alone, therefore, would rank as the largest natural disaster ever to strike the United States.

Our state and our citizens bore the brunt of a hurricane more devastating than anything this nation had ever seen, and the miles upon miles of utter destruction on the ground was unimaginable—except to those who witnessed it with their own eyes.

Hurricane Katrina destroyed thousands of businesses and billions of dollars in sales revenue were lost. Beachfronts and hotels were obliterated. Losses in livestock and agriculture hit our state's farming community especially hard. Small businesses—the lifeblood of many local economies—were wiped out along the coast line, and many were damaged or destroyed miles inland.

Small businessmen and women across our state found themselves having to scramble, adjust, innovate, and make do. It was the spirit of people such as our small business community that pulled us through. Our people are strong, resilient, and self-reliant. They're not whiners and they're not into victimhood. From day one after the storm they got to work and did what had to be done. They helped themselves and helped their neighbors. Their spirit has been an inspiration to us all, and that spirit remains the key to our recovery, rebuilding and renewal.

To ensure a sustainable recovery effort, we are working hard to continue to strengthen Mississippi's economy. While life is improving in the impacted areas, we are still presented with challenges. For example, the current labor shortage in some sectors has produced bottlenecks in our capacity to rebuild. Also, the rising cost of insurance continues to present financial challenges to our small business owners.

Rebuilding and expanding our state's economic infrastructure, creating jobs, and stabilizing our state's insurance market are top priorities. Restoring our state's economic base and tax revenues is critical to the long-term recovery of the state. Creating jobs is perhaps the single best way to achieve this goal.

Less than a month after Katrina struck, we rolled out a small business no-interest bridge loan program. Working with local bankers, the state loaned 537 businesses $13.25 million. These loans allowed hundreds of small businesses to begin hiring new employees and resuming operations.

The Mississippi Development Authority (MDA) established Small Business Assistance Centers in each of the most affected counties to provide a one-stop recovery resource for business people. At these centers, business people could talk with counselors from the Mississippi Development Authority, the Small Business Administration Disaster Assistance Office, the MS Small Business Development Centers, the Planning and Development Districts, the Mississippi Contract Procurement Center, chambers of commerce, local economic developers, and volunteers from the Service Corp of Retired Executives. MDA provided free computer usage and Internet access to help businesses regain communications with customers and suppliers. In less affected areas, MDA held Disaster Recovery Workshops to help business people navigate the array of disaster recovery resources available to them. MDA's Industry Assistance Bureau staff continues to assist small business owners in the affected areas in starting new businesses and expanding existing businesses.

The U.S. Small Business Administration (SBA) has been a strong partner with Mississippi. SBA's business and economic injury loan programs have aided thousands of Mississippi businesses with more than $500 million in loans. SBA has offered Physical Disaster Business Loans of up to $1.5 million to repair or replace businesses that are located in the declared disaster. Additionally, SBA's Economic Injury Loans for small businesses have provided financial assistance to small businesses that suffered substantial economic injury.

Small businesses in 67 Mississippi counties affected by Hurricane Katrina have also taken advantage of U.S. Small Business Administration-backed loans of up to $150,000. The loans, known as Go Loans, have been delivered through local banks and have been handled under an expedited process that in some cases has delivered a response on the loan in 24 hours or less.

SBA has also served as a good partner to Mississippi throughout our homeowner assistance grant process. Prior to disbursing HUD-funded homeowner assistance grants, the state must share information with SBA to ensure no duplication of benefits exists. We would like to thank SBA for their efforts to ensure timely payments to our homeowners. Information is currently being provided on a 48 hour turn around time.

SBA's assistance, along with the hard work of our state and our citizens, has helped spur a tremendous economic recovery in our state. With employment levels now above pre-Katrina levels, Mississippi's economic recovery is in full swing. Ongoing recovery efforts will require continued investment, innovative partnerships, economic incentives and workforce training.

The Gulf Opportunity Zone Act of 2005 was passed by Congress and signed into law by President Bush in December 2005. This legislation grants economic development incentives within 49 counties affected by Hurricane Katrina. Among the incentives for qualifying businesses is 50 percent bonus-depreciation during the first year of service of eligible personal assets and real estate and $4.8 billion in tax-exempt private activity bonds for projects in counties in the designated presidential disaster area. The state is actively working to promote the federal tax incentives included in the GO Zone legislation. MDA has met with site selection consultants from around the country and has hosted numerous seminars for Mississippi businesses and local economic development officials throughout the GO Zone to educate those potentially eligible, including a New Markets Tax Credit Forum to help match national investors with potential Mississippi projects.

Despite our progress, some hurdles to recovery still exist. Labor shortages in some sectors critical to rebuilding plague the Mississippi Gulf Coast. The Mississippi Department of Employment Security (MDES) is helping to provide skills and workforce training opportunities to meet the labor demand, especially in the construction and health care industries. The shortage of workers coupled with low unemployment rates will require a comprehensive effort to train coastal residents and reach out to others from across the country.

MDES has received more than $170 million in new, special workforce development funds through the Department of Labor. These funds have made an important difference in people's lives and in Mississippi's economy.

Because of the hard work of MDES and its employees, thousands of people have found work in temporary recovery jobs. MDES is working to transition temporary job holders into permanent employment when the temporary assignments end. So far, more than

5,000 people have entered training for permanent jobs. Short-term flexible training is being offered by community colleges in construction and health care related fields. Support services, such as transportation and childcare assistance are also available for those that need them. Also, Reintegration Counselors have provided employment counseling services in areas with high concentrations of people displaced by Katrina.

Additional Federal assistance has also enabled other employment recovery efforts. For example, The Mississippi Development Authority is providing funds to the hardest hit communities for the hiring of additional building inspectors and permit officials.

The Department of Finance and Administration has worked with FEMA to administer the federal Community Disaster Loan (CDL) program, resulting in $130 million in approved state-guaranteed loans to local governments. Congress made additional funds available for the CDL program in the June supplemental appropriations bill. Additionally, the Mississippi Development Bank has approved $148 million in loans to local governments.

The Department of Labor, in partnership with Manpower Inc. and MDES, has launched an initiative to help Mississippi workers displaced by Hurricane Katrina. Residents that were relocated more than 150 miles from home are eligible to receive assistance to return to jobs closer to home.

Special assistance was provided to employers who experienced difficulty with filing their third quarter Unemployment Insurance Wage and Tax report because payroll records were lost or damaged.

MDES received $85 million from the Department of Labor for Unemployment Benefits as part of a federal appropriation to address the extraordinary circumstances faced by Mississippi, Louisiana, and Alabama. The money went into the Mississippi Unemployment Trust Fund and enabled the Fund to retain a healthy balance in spite of the unprecedented claims filed following Katrina. MDES has reported more than 50,000 job placements since October 1, 2005.

The Mississippi Department of Employment Security applied for a National Emergency Grant (NEG) from the Department of Labor within days of Hurricane Katrina. The initial grant request of $50 million was approved and additional funds were secured over the next several weeks. More than $63 million in NEG funds have been received to provide jobs and training to Mississippians.

In addition to the NEG funds, MDES has received $8 million in other workforce development funds from the Department of Labor. These funds have been used in concert with state community and junior colleges to provide training and employment in high-growth and high-demand fields. The Pathways to Construction Training initiative was created through these funds. This program is designed to work through area community and junior colleges to meet the training needs of the construction industry as it engages in rebuilding efforts.

A new Work Opportunity Tax Credit (WOTC) target group was created by the Katrina Emergency Tax Relief Act of 2005. Its purpose is to encourage businesses to hire individuals who previously lived in the hurricane disaster areas, were displaced from their homes, and lost jobs as a result of Hurricane Katrina. Eligible businesses that hire an employee who was impacted by Hurricane Katrina may qualify to receive a federal income tax credit up to $2,400 per eligible employee.

The Workforce Investment Network (WIN) in Mississippi is an innovative strategy designed to provide convenient, one-stop employment and training services to job seekers and businesses. Working through four local Workforce Areas, the WIN system includes 43 WIN Job Centers throughout the state and several part-time offices. Within two weeks of Hurricane Katrina, all the WIN Job Centers were open with extended hours to provide employment services and to process applications for unemployment benefits.

Four WIN Job Centers on the Gulf Coast (Biloxi, Gulfport, Pascagoula, and Picayune) were significantly damaged. A fifth office in Bay St. Louis was completely destroyed. In spite of the loss of property and the personal suffering of staff, MDES began processing Disaster Unemployment Assistance and other disaster related Unemployment Benefit claims on September 12, 2005.

Mobile units were set up where WIN Job Centers were destroyed to handle unemployment claims. A Claims Call Center was created and operated 7:00 a.m. to 6:30 p.m. seven days a week, and the other non-Coast WIN Job Centers throughout the state were open 7:30 a.m. to 6:00 p.m. for at least a month. The WIN Job Center focused on putting people back to work. MDES ran television, radio, and newspaper announcements throughout the state, encouraging people to visit their local WIN Job Center to look for jobs and reminding employers to list their jobs with MDES in order to take full advantage of the resources available to them.

A toll-free number was available for employers to list jobs statewide. The first Katrina Recovery Job Fair was held in Picayune in October. The MDES website was expanded to include links for both employers and job seekers to post jobs, to search for jobs, and to find a schedule of job fairs.

The WIN Centers are committed to providing people services tailored to their individual needs. With that in mind and understanding that Katrina created new employment problems, MDES applied for and received a grant from the Department of Labor to hire 25 Reintegration Counselors. The specially trained counselors provide reemployment and reintegration services throughout the state in areas with high concentrations of individuals displaced by Katrina. Working closely with other agencies and non-profit service organizations, they network to find resources for their clients to help them get back to work.

MDES, its WIN Job Center partners, and the four local Workforce Areas will continue to assertively work to put Mississippians back to work on the Coast and throughout the state

as the state recovers from Katrina. As more Mississippians get back to work, more small businesses will continue to open and expand their operations.

While much has been achieved in the months since Hurricane Katrina, our work to recover, rebuild, and renew will take years. It will also take the continued support of people like you. Much opportunity lies ahead. Hurricane Katrina, with all its destruction, gave birth to a renaissance in Mississippi that will result in rebuilding our state bigger and better than ever before. Small businesses will be at the heart of that renaissance. The Small businessmen and women of our state have been a model of the spirit and character of our people. They have remained strong, resilient and self-reliant though they have endured terrible hardships. They bore the worst of Katrina and many are still living in conditions that amount to deprivation, but they persevere. Our state's small business community is rebuilding one day at a time, and we ask for your continued assistance in helping them move forward. Through your efforts and the efforts of the people of our great state, we will rebuild a Mississippi that exceeds anything we have ever known.

Thank You.

Written Testimony of Donna and Matt Colosino,* Owners of Crescent Power Systems, of New Orleans, LA to the Small Business Committee of the U.S. House of Representatives

February 14, 2007

Business Profile

Our 13-year-old company is essentially a manufacturer's representative business. We sell industrial electrical power generation equipment to large industrial clients in the Louisiana, Mississippi and Arkansas markets. We employ five people and our annual equipment sales for the 2006 fiscal year exceeded $7.7 million. Our office was located at 129 Polk Street, in the now-famous neighborhood of Lakeview in New Orleans. We had been in that location for over eight years. My husband and I own the company, an S Corporation. My husband is an electrical engineer. He graduated with honors from Tulane University. I am a graduate of the Executive MBA program at the University of New Orleans, one of four graduates in 1999 with a perfect 4.0 average, which I earned while working full time and raising three sons. I tell you this information so that you can be assured that we have the education, intelligence, training and experience to communicate successfully and negotiate nearly any situation . . . at least any situation that does not involve the Small Business Association.

Damage to property

We sustained no significant damage to property in the storm at all. After the hurricane had passed, we were able to call into the office and get messages off of the phone system. All electrical processes were in working order. However, when the levee failed at the 17th Street Canal, our building was swamped by over 12 feet of water -- for several weeks. Everything was lost, including all our business documentation (covering all 13 years of operation), all business machines, office furnishings, equipment in the warehouse, etc. We calculated over $300,000 of damage to the business and an additional $300,000 in damage to the building and property.

Summary

Our story focuses on SBA Loan [redacted], which was supposed to help us address our catastrophic business losses. This testimony is based on careful notes that I kept throughout this long and painful process. As a small business attempting to recover from disaster, several themes emerged from our experience with the SBA: (1) there is absolutely no accountability at the SBA; (2) there is no continuity and virtually no follow-through -- we were passed off to more than twenty different "loan officers" who came and went like ghosts and, with each new voice at the other end of the phone; we pretty much had to start all over; (3) the process is grossly redundant and, obviously,

* Oral Testimony to be provided by Ms. Colosino.

excruciatingly slow -- we were asked to provide the SBA with the same materials again and again (at least a dozen times); (4) while usually outwardly nice enough, SBA representatives were typically clueless about our application, about how the SBA, and certainly about what we were going through -- we were often given off the cuff advice that seemed to contradict the SBA's own (pointless) rules; (5) when we did get responses or paperwork from the SBA, it was usually riddled with errors; and (6) in addition to taking forever (after all, we've still not received a loan although we obviously qualify), working with the SBA after a disaster is like having a second job - it takes a toll on your time, your resources, your well-being.

The SBA Games Begin

10/13/05: SBA loan application submitted.

10/18/05: UPS confirms SBA receipt of our application packet.

11/16/05: SBA communication requesting clarification of tax information. Response was sent by fax the same day and mailed also. Acknowledge receipt by SBA on 11/28/05).

NOTE: Already, we have had two different loan officers on the case. This number will eventually exceed twenty.

1/6/06: In a telephone conversation with SBA, we were told that "Your loan is being (processed)." The process was outlined to us as follows: Your business site is visited, your data is reviewed, and after your loan is approved, it will take 4-5 weeks to receive the funds.

1/20/06: We are contacted by SBA representative George Bowen, who did a site survey and reviewed our documentation of losses. He does not indicate any problem with either.

1/25/06: We received our approval letter, dated January 25, 2006 which identifies that we have been approved for $250,000.00 for 30 years at an interest rate of 4% with monthly payments of $1,258.00. *All we have to do* is to send a copy of the deed for our home and a copy of the lease agreement on the office property we were renting at the time. We send this information on 2/16/06. This was to be only the first of what would become countless occasions that the same documentation was sent to the SBA by fax and Federal Express.

NOTE: It took us two weeks to send this information because our copy of the "legal description" of the property was lost to us in the storm. Our bank's copy of the same documentation was lost to them in the storm. Our realtor's copy of the same documentation was lost to him in the storm. This is just one complication, seemingly lost at the SBA, of everyone losing everything.

NOTE: An additional complication of dealing with SBA is that they usually request that information be sent to them by fax. But the fax numbers they provide were often inaccurate or non-working numbers at least throughout the first 10-12 months we "worked with" SBA.

2/15/06: Nina of the "Loan Commitment Team" assures us that our loan is being processed. Because we received our Approval Letter at the end of January, we anticipated receiving our money in another 2-6 weeks, which is what we were told on 1/6/06.

3/16/06: Amy[redacted] of the "Loan Commitment Team" acknowledges receipt of all necessary information. Our loan is being "processed."

4/20/06: Mike[redacted], a "Liaison for the Loan Commitment Team" informs us that our paperwork is in "doc prep" and that our loan papers will be out to us "next week." It has now been six months since our application was received.

5/1/06: Chad of the "Loan Commitment Team", informs us that as of 4/26/06 our paperwork was in "Loan Mod" and that (and I'm quoting him here) our loan was with "Team 9, the Power Pushers"!

5/3/06: John[redacted] of SBA "Mod 3" tells us that he is our new Loan Officer. Like those before him, he knows nothing about us, our business or our file. We re-tell the whole story and resend the documentation.

5/3/06: I call Sen. Mary Landrieu's office and speak to Brian. I tell him of our recurring difficulties with the whole SBA process. (Although, I'm not sure "process" is the accurate word. I actually can't think of a word to describe what we have been through, but it reminds me of that scene in "Apocalypse Now": "What method, sir"..."The horror, the horror..."). Brian says Senator Landrieu will "look into it." We never hear back.

NOTE: *Every time I have spoken to anyone from SBA, from May of 2006 until November 14, 2006, our loan was being handled by a different person.* Every time I have spoke to anyone from SBA from that same May-Nov period, *I had to resend the same documentation.* I have faxed, mailed, and overnighted the documents requested of us. I have sent the same information no fewer than 12 times. Yes, *no fewer than 12 times.* On my father's grave, that is not an exaggeration.

You may also ask why we did not make daily calls to facilitate this "process." Well, our clients are hospitals and manufacturers and petro-chemical clients whose power generation equipment was lost or damaged. They had urgent needs. We started servicing our customers almost immediately in their need to get back up and running. For example, our Service Engineer had to be escorted to Touro Hospital in New Orleans by the National Guard to help get their power plant restored. While struggling to get back

on our business feet, we did not have a place to live, nor did our employees. In other words, we lost almost everything, but not our commitment to our community and our customers -- even before our own needs were met. Daily phone calls to an unresponsive, irresponsible SBA were not an option in a small business responding to our customers' urgent needs while struggling to overcome our own devastating losses as well.

Let's also be very clear on another point. My federal government, (the same government who oversaw the federal entity that allowed shoddy, incompetent work to be done on the 17th Street Canal) is not giving me this money. Oh, no. . . I am paying $150,000.00 for the "right" to secure this $250,000 loan and pay it back to that same federal government. If ever we receive anything, it's not a hand-out.

5/17/06: Following several phone calls to SBA, they decided to release an initial disbursement of $10,000.00. We (inaccurately) assumed that this meant we were on the last leg of our journey, and the full loan would soon follow. Not so. Apparently, all it meant was that the SBA was able to mark our loan "complete," issue a closing report and shuffle the papers to another department.

Worse still, this sleight of hand also started our clock ticking for repaying the loan. You may be thinking: If you are loaned $10,000.00, then of course you should be prepared to pay it back. And we would agree! That is a rational and reasonable position. However, it is our whole loan payment that will initiate May 2007 -- not only the 10K that we have received, but the entire amount -- which we've never received!!! Yes, we are expected to pay for a loan which has not been fulfilled. Interesting way to do business. And, the one year grace period is a sham. Nothing rational or reasonable about this.

Following a phone call to SBA in the fall of 2006, we spoke to Mr. Jeff[redacted] and immediately fulfilled his request to re-send all documentation yet again.

The revolving door continues: every time you call, you speak to a different person... a person who knows nothing about your situation and has no information about your file.

Mr. [redacted] received our information and held the file long enough to get papers to us to sign... not loan papers.... just more papers.... and they were largely incorrect on nearly all details! We phone Mr. [redacted] and tell him that addresses are wrong and data incorrect all throughout the packet. He told us to sign them anyway, as the process would be moved back to square one if we tried to correct the information. So, we did!

10/06: I call again. How is our "loan process" going? No one knows anyone by the name of Jeff[redacted]. Can someone else help you? We are assigned yet another loan officer, this time by the name of Apolonio [redacted]. He does not know anything about our situation and has no documentation at all about our loan. So, after I literally cry out of frustration, Mr. [redacted]

says he will "try to help." And he did, in fact, get us our loan paperwork. The paperwork had two different loan amounts and had the location of our home (the loan collateral) is misspelled. Did we sign them? Yes.

NOTE: The way SBA handles the issue of collateral is beyond belief. Our loan, which is either for $179,000 or $250,000 (depending on which page of the loan documents you believe), is being secured by property of at least twice and up to three times the loan value. I was forced to make SBA a mortgagee on both our home (valued over $350,000), and on the office property we purchased (valued over $200,000). This means that if I have a leak and my kitchen floor is ruined in my home, SBA gets the money before I do. Did we sign the loan documents? Yes.

1/8/07: Our notarized loan documents are sent to SBA -- one full year after we received a letter from SBA stating that we had been approved for our loan. Beyond the initial $10,000.00 we received in the summer, we have seen nothing.

1/29/07: I call SBA for an update. Guess what? We have a new loan officer. His name is Dexter[redacted] Dexter is at extension, 7422 and, he's part of "Relocation Team #7." But Dexter is unavailable for comment at the current time.

There you have it. It is sickening. It is unjust. It is demeaning and demoralizing.

Meanwhile, our community sits in ruin. Rats run along the power lines in the once-beautiful neighborhood where we had our business. We no longer live in the city of New Orleans. We had to relocate to Baton Rouge to get our business up and running as soon as possible. However, we long to return. I want someone please to acknowledge the great wrong that has been perpetuated here: to reverse the horrible performance of the disaster relief services supposedly in place to "help" us: and to discontinue this sham.

Fix it, please.

2/2/07: When I was told on January 29 that Dexter[redacted] was my loan officer, but that he was not available, I left him a message that same day. Not having heard back, I call him again today and leave another message. After waiting a couple of hours, I guess at his e-mail address and get it right on the first try. My email response from[redacted]@sba.gov was actually the following, and I am quoting him: ***"Who are you?"***

I call him again. He picks up. He is, in fact, my new case manager. He tells me that he has "a lot of files sent from other case managers that have handled my claim" and asks what did I want? I say to myself the same thing I have been saying to myself since last November: *Maybe this*

person will actually help me! I tell him only part of the ugly story before he tells me that he does not have the loan papers that I had notarized and sent via FedEx on January 9. It is February 2 now… I am pretty sure there is no sense of urgency at all to service a loan that was approved over a year ago.

Will someone wake me up from this nightmare? Dexter says he has to "send an e-mail to someone and see if the papers can be found," *and can I call him back sometime on Monday and see if the papers were located*?

Respectfully submitted,

Donna and Matt Colosino, Owners
Crescent Power Systems
129 Polk Street
New Orleans, LA 70124

February 14, 2007

(Matt Colosino)

FIELD LOAN CLOSING REPORT AND CHECKLIST

Borrowers' Name: Crescent Power Systems
Amount of Loan: 250,000
Companion File: ☒ YES ✓ NO

Application Number: [redacted]
*Current Phone Numbers: [redacted]
*Current Mailing Address: P.O. Box 83636, B.R., LA 70884

Date Rec'd: May 17, 06

CHRON: Closed in field; Deed attached; H/O and Flood dec sheets attached; LA&A; Note; EFT; Lobbying; fee;

✓ Have you explained all terms, conditions and documents to the Borrower(s), including first payment due date, use of proceeds, collateral, insurance requirement, etc?

N/A If the Borrower(s) advise that their mailing address is different than that shown on the LA&A, advise the Legal Department when ordering a disbursement. You must obtain written confirmation of new address, an explanation of the change and whether it is permanent.

✓ Any changes requested by the Borrower(s) to the LA&A must be submitted in writing by the Borrower(s). This includes a permanent change of address.

DOCUMENTS NECESSARY FOR INITIAL DISBURSEMENT

✓ **Signed LA&A (all loans)**

✓ **Signed and dated Promissory Note (all loans)**

✓ **Flood by LAW.** Evidence of Flood Insurance coverage (if specified in the LA&A)

N/A Signed and dated **"Assignment of Insurance Proceeds"** (if specified in the LA&A)
___ Insurance Recovery broken out by RE and PP

✓ **Other Conditions** have been satisfied (as required in the LA&A)

___ **IHP funds to be repaid - this must be the first disbursement issued as a co-payable check** (if specified in the "Use of Proceeds" section of the LA&A)

Recommended Disbursement $ 10K.
If "Subject to Flood Mapping", then we need: Temp Address:

It will take approximately ten (10) to fourteen (14) business days to receive your initial disbursement.

Name of Closer: A. Langard
DRC: Baton Rouge
Date: May 17, 06

01.20.06

U.S. Small Business Administration

SECURITY AGREEMENT

SBA Loan #	[redacted]
Debtor (Exact full legal name of individual(s), corporation, LLC, partnership, or other organization)	Crescent Power Systems, Inc.
Borrower	Crescent Power Systems, Inc., Matthew J Colosino and Donna I Colosino
Secured Party	**The Small Business Administration, an Agency of the U.S. Government**
Date	November 16, 2006
Note Amount	$179,300.00

1. DEFINITIONS.

Unless otherwise specified, all terms used in this Agreement will have the meanings ascribed to them under the Official Text of the Uniform Commercial Code, as it may be amended from time to time, ("UCC"). "SBA" means the Small Business Administration, an Agency of the U.S. Government.

2. GRANT OF SECURITY INTEREST.

For value received, the Debtor grants to the Secured Party a security interest in the property described below in paragraph 4 (the "Collateral").

3. OBLIGATIONS SECURED.

This Agreement secures the payment and performance of: (a) all obligations under a Note dated May 3, 2006, made by Crescent Power Systems, Inc., Matthew J Colosino and Donna I Colosino, made payable to SBA, in the amount of $179,300.00 ("Note"), including all costs and expenses (including reasonable attorney's fees), incurred by Secured Party in the disbursement, administration and collection of the loan evidenced by the Note; (b) all costs and expenses (including reasonable attorney's fees), incurred by Secured Party in the protection, maintenance and enforcement of the security interest hereby granted; (c) all obligations of the Debtor in any other agreement relating to the Note; and (d) any modifications, renewals, refinancings, or extensions of the foregoing obligations.

The Note and all other obligations secured hereby are collectively called the "Obligations."

Wed Jan 17 09:02:50 2007 Atlanta6A pc1 3647

U.S. SMALL BUSINESS ADMINISTRATION

LOAN NUMBER: [redacted] Crescent Power Systems, Inc. 01/17/07

PAYMENT DUE DATE	INSTALLMENT AMOUNT	AMOUNT NOW DUE
05/03/07	0.00	0.00

DATE OF LAST PAYMENT	AMOUNT OF LAST PAYMENT	AMOUNT TO PRINCIPAL	AMOUNT TO INTEREST	PRESENT PRINCIPAL BALANCE
	0.00	0.00	0.00	0.00

PAYMENT ADDRESS ONLY

Small Business Administration
PO Box 740192
Atlanta GA 30374-0192

PLEASE CONTACT THE SERVICING OFFICE LISTED BELOW IF YOU HAVE ANY QUESTIONS ON YOUR ACCOUNT

Small Business Administration
14925 KINGSPORT ROAD
FORT WORTH TX 761552243
Phone: 800 366-6303

THIS IS A REMINDER THAT BEGINNING 05/03/07 A PAYMENT OF $902.00 WILL BE DUE ON YOUR SBA DISASTER LOAN.

14925 KINGSPORT ROAD
FORT WORTH TX 76155-2243

Schedule on-line payments at: https://www.pay.gov. From the right side menu, select "SBA Payments";then select "1201 Borrower Payments". Make a one-time payment, or register as a user to save your account information, payment history, and to elect to setup recurring payments.

MAKE PAYABLE TO SMALL BUSINESS ADMINISTRATION
SEND YOUR PAYMENT TO THE *PAYMENT ADDRESS* LISTED ABOVE
PLEASE REFER THIS FORM OR STATEMENT WITH YOUR PAYMENT
PLEASE ENSURE ON ALL PAYMENTS REFERENCE YOUR ACCOUNT IS CREDITED PROPERLY
DO NOT SEND CASH
DO NOT USE TAPE, PAPER CLIPS OR STAPLES

01/17/07

LOAN NUMBER	DUE DATE	INSTALLMENT AMOUNT	AMOUNT NOW DUE	AMOUNT ENCLOSED
[redacted]	05/03/07	0.00	0.00	

☐ PLEASE CHECK HERE AND COMPLETE THE *BACK OF THIS FORM* IF YOUR ADDRESS HAS CHANGED.
☐ PLEASE CHECK HERE IF YOUR PHONE NUMBER HAS CHANGED AND CONTACT YOUR *SERVICING OFFICE* LISTED ABOVE

#BWNDPZY 3647
#GJAADFEHAHEJBA1#

Crescent Power Systems, Inc.
12336 Perkins Road
Baton Rouge LA 70810-1902

9030

PAYMENT AMOUNT _____
ADDITIONAL PRINCIPAL AMT _____
TOTAL AMOUNT ENCLOSED _____

[redacted] 100000000000000000 2

U.S. SMALL BUSINESS ADMINISTRATION
National Processing and Disbursement Center
P.O. Box 156119
Fort Worth, Texas 76155

817-868-2300
800-366-6303
Hearing Impaired
817-267-4688

January 25, 2006

Crescent Power Systems, Inc.
P.O. Box 83636
Baton Rouge, LA 70884

RE: SBA Disaster Loan Application No.: [redacted]

Dear Applicant:

SBA is pleased to advise you that your loan request has been approved for **$250,000.00** for **30** years at an interest rate of **4.000** percent with monthly payments of **$1,258.00.**

The loan approval is subject to the following conditions:

Your loan amount may be reviewed further to consider assistance received from your insurance company, FEMA, American Red Cross or other sources. Your loan amount may be reduced for any recoveries that may duplicate the SBA disaster loan. Please advise SBA if you have received additional funds since the time you submitted your loan application or communicated with your SBA loan officer. *SBA must confirm your loan request is in accordance with federal regulations and SBA policies*

Before proceeding with preparation of your loan closing documents, we need specific documentation to confirm your eligibility. Please provide the following:

1. A copy of the deed that includes a complete legal description, for the property located at 20 Plover Street New Orleans, LA reflecting ownership in the name(s) of Matthew J. Colosino and Donna I. Colosino.
2. A complete copy of the lease agreement for the property located at 12030 Lakeland Park Blvd. Baton Rouge, LA.

The approval of your loan request is subject to SBA confirming with the Internal Revenue Service the filing of your Federal Income Tax Returns. No additional tax information is needed from you. Any information required will be forwarded directly to SBA from the Internal Revenue Service (IRS).

In order to assure prompt disaster loan assistance, we request that you forward the information as soon as possible **but no later than 21 days from the date of this letter**. If you feel that you may have difficulty providing the information, or if you have questions about your disaster loan please call us at 1-800-366-6303. You may fax the requested information to 817-358-3163. Please return a copy of this letter with your response.

Sincerely,
Legal Commitments Team

Testimony
of
Patricia Smith
Before the House Small Business Committee
Hearing on "The SBA's Response to the 2005 Gulf Coast Hurricanes"
February 14, 2007

Chairwoman Velázquez , Ranking Member Chabot, and members of the House Small Business Committee, my name is Patricia Smith. My husband and I co-own PEMBA Lighting and Automation in New Orleans, Louisiana. Many of you may remember that I testified before this committee last year.

Last year, I described my efforts to get an SBA disaster loan to get my small business up and running again. Before Katrina hit, our expanding business employed five to seven people and was our primary source of income. After the storm, it seemed like our business was doomed; we had no electricity for a month and no phone or internet service for months after that. As our losses mounted, we were forced to lay off employees. Even when new work came in, we could not handle the workload.

During the six months after the storm, I was repeatedly frustrated in my attempts to get an SBA disaster loan – the experience I testified about last March. Our initial application was declined after months of waiting and snafus. Even though many other people told me they had given up on the SBA, I began a letter writing campaign and came to Washington because I felt then and feel now that this process needs to work better for businesses like mine.

Shortly after my testimony, I was contacted by the SBA to re-evaluate my loan and received a new loan package. I initially had hope that the situation had improved, but it turned out that the amount of the loan didn't fit my business needs. Even worse, the loan repayment date was fixed to the date I had applied, with no consideration for the months SBA took to process the loan. I had expected to have a full year to get up and running – using the loan funds – before payments would begin. Instead, I would only have a few months. Under those circumstances, it didn't seem reasonable that I would be able to repay the loan SBA was offering.

Clearly, SBA was not meeting my needs, so I decided to look elsewhere.

Ultimately, I decided to apply for private financing to buy an existing lighting showroom. After 30 days of negotiations with the bank and the owners, we had a firm plan on how to proceed – a short time compared to the months of back-and-forth I had endured with the SBA. I made the difficult decision to withdraw my SBA loan. I was told we could reapply in 6 months. Until then, our flooded property will remain untouched.

After it was announced that I would be testifying today, I was contacted by the SBA again. While I appreciate the effort, it is frustrating that it has taken two trips to

Washington to get my case the attention it needs. It is 18 months later now, and the reality is that our business is no different from thousands of others than were doing well in Louisiana before Katrina. Not every small business owner who needs fair and efficient service from the Small Business Administration should have to testify before this committee not once, but twice, to get the service it deserves. We are simply trying to access the tools we need to get our businesses and our employees back to work.

There are many lessons from my experience that I believe could improve the SBA process. First, there must be consistency in the application process. I've found that the rules seem to change depending on who you talk to, leading to great uncertainty. Loan terms and needed changes must be agreed upon up front, and owners should not be told to apply later for changes that may not happen. Predictability is key for small business owners who are getting their lives back together.

Finally, I think the SBA should reconsider how it measures success. Time is of the essence in these disaster situations, so the SBA should set a goal of helping applicants within 30 days. The SBA needs to see itself as a champion for those in need of help, not a gatekeeper for this critical assistance. The SBA must take a stakeholder interest in the economic success of a community. If the community comes back slowly, the agency should recognize its part in that.

Thank you for your time. I look forward to answering your questions about my business and my experiences with the Small Business Administration. I appreciate the opportunity to give you a picture of what is really happening in the rebuilding process along the Gulf Coast.

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