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FULL COMMITTEE HEARING ON DISASTER RELIEF AND ACCESS TO CAPITAL LEGISLATION

COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES

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FULL COMITTEE HEARING ON DISASTER RELIEF AND ACCESS TO CAPITAL LEGISLATION

THURSDAY, MARCH 8, 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, González, Bean, Moore, Altmire, Clarke, Sestak, Chabot, Akin, Musgrave, Westmoreland, Davis, Fallin, Buchanan and Jordan.

Also Present: Representative Melancon (LA).

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

Chairwoman VELÁZQUEZ. Good morning. I am pleased to call this hearing to order.

First, I want to thank each of the witnesses that will be testifying today presenting their views and comments regarding the proposed legislation that we have before this Committee.

This morning's hearing will discuss two very important and different roles that the Small Business Administration plays. Access to Capital and Disaster Assistance.

This Committee has held two hearings on these topics and today we will review legislation that attempts to address many of those issues brought up during those discussions. The Disaster Loan Program was created for the purposes of providing financial assistance to entrepreneurs. However, as most of you recall Hurricane Katrina tested this initiative and uncovered many problems. After the storm the effected small businesses were brought down with paperwork and substantial delays in receiving much needed aid. There is no question that this cannot happen again and that our small businesses better.

For the SBA to assist entrepreneurs they must have a disaster plan in place. Processes need to be streamlined and tools should be available to provide relief in a faster, more efficient matter. We also need to move away from the current one size fits all approach and broaden the type of aid for small businesses.

This includes using vehicles such as bridge loans and grants to respond to the diverse needs of the experience. The disaster relief legislation being reviewed today, the RECOVER Act of 2007 does just that.

Clearly small businesses do not just need capital following a disaster. They need each and every day to start and expand their ventures. The SBA loan programs, while valuable, could be doing so much more. They were first developed to provide long term financing. For these initiatives to live up to their original intent, we need to make them more affordable and accessible for small business owners.

The Small Business Lending Improvement Act of 2007 introduced by Ms. Bean and Mr. Chabot will reduce the financial and regulatory burden placed on small businesses. Most importantly, it will make loans more economical while providing long term ability.

HR 1332 will accomplish a number of important public policy goals. This legislation provides incentives for medical professionals to locate to low income areas and establishes a rural lender program to attract small lenders back into the program.

Also, veterans returning from Iraq and Afghanistan will be able to secure funds to further expand their funds should they choose to do so. After all they have done for our country this is the least we can for them.

This bill touches all aspects of the SBA lending initiatives, including 504.

One thing about this program that has always stood out are the ties between local CDCs and the community. The Small Business Lending Improve Act of 2007 strengthen these ties by making much needed and long overdue changes. It also keeps the initiative affordable by enabling CDCs to improve the liquidation process allowing fees to remain reasonable.

Today's hearing will provide members with an opportunity to provide input and fine tune these proposals in preparation for next week's markup. This country's 26 million small businesses must have the ability to secure affordable capital in order to continue spurring economic development and job creation. It is not only important that they are able to start their businesses, but if effected by a disaster such as Katrina, entrepreneurs must be able to receive reliable and efficient aid.

I believe the legislation being reviewed today strengthens: The Disaster and Access to Capital Programs giving small businesses the tools they need to be competitive and success. And I look forward to hearing the witnesses testimony.

And now I will recognize Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr. CHABOT. Thank you, Madam Chair. And I'd like to thank Chairwoman Velázquez for holding this hearing in which we'll review access to capital and disaster legislation.

I also want to thank our witnesses for taking the time to share their thoughts and experiences regarding these important issues. And I especially want to thank David Main, a constituent from my District Cincinnati, and the President of the Horizon Certified Development Company who I will be introducing shortly for making the trip from Cincinnati today.

Already this Congress, this Committee has held hearings on the SBA's response to the Gulf Coast hurricanes as well as the SBA's primary loan programs, the 7(a) and the 501 programs.

During these hearings the Committee has had the opportunity to hear the experiences of a cross section of witnesses who use and participate in these important programs. After hearing these personal stories it became apparent that some adjustments need to be made to make these programs better.

For instance, I strongly believe we need to evaluate ways to expand the 7(a) and 504 loan programs to provide opportunities to small business owners in rural areas and urban areas. However, I believe this should be accomplished without reverting back to the days when the viability of these important lending programs was dependent on receiving appropriations.

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 7(a) loans for veterans should reflect their selfless contribution to defending our nation.

Also of great interest to I think many of us, and I am sure every member of this Committee is rethinking the procedures used by the SBA to respond to a future national disaster, one that may or may not be similar to Hurricane Katrina's devastation. I would certainly that we do not have a repeat of that anytime in the near or distant future because of the devastation that that caused.

Reevaluation of disaster plans, including SBA coordination with FEMA and the mobilization of a standby personnel force to process disaster loans is crucial who will need help from the SBA Disaster Loan Program in the future.

The legislation we will discuss today is critically important for existing small businesses, Americans who dream of starting their own business and those who may have the misfortune of having to pick up the pieces following a national disaster.

I look forward to listening to today's testimony and working with Chairwoman Velázquez in finding ways to improve these important loan programs.

And I yield back the balance of my time.

Chairwoman VELÁZQUEZ. Thank you, Mr. Chabot.

And I now I recognize Mr. Jefferson for an opening statement.

OPENING STATEMENT OF MR. JEFFERSON

Mr. JEFFERSON. Thank you, Madam Chairlady. And I want to express my appreciation to you as well for the leadership you are providing in this area and to Mr. Chabot in support of the work.

I would like to also welcome Richard Baker from my home State who we will hear from just a minute and who is co-authoring one of the important bills under consideration.

I will just limit my remarks to the disaster issues. In the Gulf Coast region SBA received about 422,000 disaster assistance applications for the Gulf Coast hurricanes. Of these applications, 159,000 or 38 percent were subsequentially approved and funded in the amount that just exceeds $10.8 billion. 193,751 applications were denied, and nearly 70,000 applications were withdrawn by the borrower for various reasons for complications and the rest.

Of the funds approved for victims of these hurricanes, just under $5 billion has been dispersed as of January 22, 2007.

The SBA also lacked adequate service and support for its information and telecommunications systems making it difficult to contact perspective borrowers and for them to communicate with the agency.

We had in the Gulf Coast, of course, the kind of experience that no one has ever seen before where you had people who were both homeowners and business owners out of both places at the same time and trying to qualify and provide records and information to the SBA that they were not just prepared to provide any flexibility for. And that is a big set of issues.

I want to make two other small points, Madam Chair, if I can.

There will be some discussion today bout the SBA lending program and its coordination with the so called Road Home Program that we are trying to use CDC money to get people back in their homes and to whether some of the efforts that we are pushing now to get some relief for small business people for homeowners, particularly is double dipping.

I just want to say to you that for most people back home the big problem is they have a mortgage on their house they have to pay. They get an SBA loan and the question is whether they can qualify for it because they may or may not have their jobs back in place. And the Road Home Grant comes along and they have to pay off the SBA loan, and they are just about where they were when they started out. And so we have got to make some sense out of that because no one wants to have our folks double dip with the Federal Government, but you also want to make some real sense out of what is happening to people in real a life situation.

The other issue that we will talk about a little later, and Mr. Alford testifies perhaps I will ask him about, is the 8(a) program that is authorized by the SBA statutes. And what basically has happened there is that there is a nine year life for 8(a) contractors to enjoy the opportunities that the program presents. That life was interrupted by the storm. And so the question is to what extent are we going to extend that so that the program participant who was there in 2005 in August gets the same length of time and enjoyment of the 8(a) status as anyone else would. And so we think it may be reasonable to extend it by 15 or 18 months. And I hope we will have the cooperation of the Committee to get that done.

Madam Chairlady, I will yield back.

Chairwoman VELÁZQUEZ. Thank you, Mr. Jefferson.

And now I have the pleasure to welcome Mr. James Baker to the Committee. And he represents one of the most impacted area on the Gulf Coast. Richard. I'm sorry.

Mr. BAKER. I respond to a lot of things, Madam Chair.

Chairwoman VELÁZQUEZ. Do not get insulted by that.

Mr. BAKER. No, no. Not at all.

Chairwoman VELÁZQUEZ. You know, I am called Nardia, Nydia and it is just I know that it is an expression of love.

Mr. BAKER. Thank you. When Howard Baker became Reagan's Chief of Staff I got letters congratulating me.

Chairwoman VELÁZQUEZ. And I want to thank you for the input and feedback. In fact, you worked closely with the Committee in crafting the legislation that we are considering today.

Mr. Baker, I believe that there are two challenges that are going to be before us. And that is the grant provision and the Road Home Grant provision. And I would like for you to address those in your statement, if you can do that.

STATEMENT OF HON. RICHARD BAKER (LA), CONGRESSMAN, U.S. HOUSE OF REPRESENTATIVES

Mr. BAKER. Thank you, Madam Chair, Ranking Member Chabot, Members.

I am pleased to be here. And I know you have a distinguished panel of witnesses to follow, so I will be as brief as possible. But I have deeply held convictions for a conservative Republicans who has deep and abiding faith in markets. But we are facing a recovery problem in Louisiana that the free markets cannot simply address today. And let me explain how.

First, the Road Home Program, which is constructed at the State level and funded by the generously of the Members of Congress provided in rough terms about $10 billion for assistance to individual homeowners, not to exceed $150,000 per residence. As of February 1 of $10 billion, $31 million has been paid out to individual recipients at an average per household figure of $68,000. Something is not working. At that rate it will take 42.6 years to expend $10 billion. We don't have 42.6 years. So we are needing some extraordinary diversion from the current set of rules that appear to be constraining.

The subject matter of the bill before the Committee today in one regard is with regard to SBA benefits. For example, an individual engaged in the restaurant business prior to Katrina entered into a $200,000 SBA loan. Landfall of Katrina, Road Home calculation, the person is entitled to assume, let us assume for the purpose of this illustration, $100,000. All $100,000 of that loan must go toward resolution of the SBA obligation, although it had nothing to do with Katrina, has nothing to do with the viability of the ongoing business enterprise. And whether than concern ourselves with double dipping, in this case there is no dip. There is nothing.

The money goes from the Road Home Program, which is Federal dollars, back to repayment of a Federal lending obligation. The homeowner, the business person is right where they started: Zero with demolished properties on their real estate.

And herein is the difficulty of the recovery. We were all to imagine ourselves as individual homeowners all living in this community in this room together. If I had all the resources in the world and I were to come back today to this community in which every structure, every fire station, every school, every hospital, every home, social order as we know it is now gone, do I want to spend by $200,000, $300,000, $400,000, $500,000 on this tract of land to rebuild my house not knowing whether my children will have a school, whether there will be a fireman on the corner or whether there will be a grocery store at which I can shop. You will not do it.

And so much of the indecision in the recovery process today is that we lack a systemic ability to create a market opportunity.

In Financial Services yesterday we took a very big step to provide an initiative for that type of recovery. And what do I foresee?

One of the elements would be for an aggregating entity, in this case it is the New Orleans Recovery Authority, of which Mr. Jefferson is familiar, will be permitted to take control of various assets and aggregate them into a contiguous block. We will clean that property off, environmentally secure it and then sell it back into the market. So that the role of Government in this instance is to provide a mechanism where free market forces may work, where today they simply cannot.

As part of that effort to provide an environment of restoration we also need to do one of the things that the Chairlady has mentioned that is contained in this legislation. And that is to set aside the SBA repayment requirement out of assistance provided to homeowners for rebuilding of their residences. And for that, I cannot express deeply enough my appreciation for that approach.

Why is that so essential? That will then give individuals the tools once the recovery has begun, once we have property ready to put back into the market to have the assets to rebuy property either where they used to live or in another location.

It also is important from a small business perspective to realize that even if the small businessman was not adversely affected; I had a radiator shop guy, been in business for many, many years, quite successful. His problem is he does not have any customer. So we cannot build the radiator shop, we cannot just build the house. We have to have a systemic recovery plan where disparate and various governmental resources are brought to bear simultaneously, which I have to report to you today, Members, is simply not happening. And that is why you will continue to see the recovery lag until you take the extraordinary steps that is being proposed in this legislation.

And I wish to make clear I do not believe the remedies being posed in this legislation should be ordinary and customary business practice. They should be very significantly constrained to instances which are multi-State, cover thousands of square miles in which all basic services are lost. So that we set in motion only an extreme remedy for an extreme adverse event.

In many communities that suffer a partial loss of residences or public service delivery assets, they still have operating utilities, they still have grocery stores, they still have people on with their lives and you can build out from that back into the area of distress. In this case, St. Bernard Parish, a community of 67,000 people, six months after the storm made landfall there were 231 operating utility meters.

Now, when you lose 66,000 plus individuals and all the residences, how do you start the free market?

And that then leads me to the discussion of what I know will be controversial to some of my colleagues, the grants proposals.

First, it would be limited and constrained by the administrator's judgment as to whether it is appropriate.

Secondly, I suggested and the Chairlady adopted, a proviso that it be made only available to those businesses that were in existence and successfully operating continually for a period of two years preceding the storm.

Thirdly, that the amount and whether the terms of that should be left solely to the administrator to decide, and the taxpayer best interest, how those resources can be utilized.

Go to the French Quarter. There are restaurants which have been operating literally for well over a 100 years. They are in terrible circumstance. They do not have customers. Now how do we expect the tourism industry to come back if we continue to lose our marquee restaurants and facilities that are the magnet to bring people to the French Quarter?

Believe me: People of Orleans want you out of their backyard. We want our lives back. We want our grocery stores to work. We want our kids to go to school. And we want to get on with growing our own prosperity. But in the short period of time where we are trying to build housing to get the customers of the restaurant back in the city, there may be a necessity for bridge loans for viable previously existing successful business enterprises to continue with some special assistance during this period of recovery.

It is extraordinary. I would never have thought myself in this position, six months ago, a year ago, two years ago. But I have come to the conclusion that these extraordinary measures which you should restrict in the most significant way possible are absolutely essential for the recovery of this community and this part of our economy.

Why is it important? The oil and gas activity, the seafood market, the port system which between Baton Rouge and New Orleans is the largest in the country. There is economic necessity for people to live in this part of the world and do what we do.

Therefore, we must find a way for recovery to proceed in the most taxpayer responsible manner possible. And that comes from a marriage of governmental essentials married to economic free market recovery, which I believe we can move this program forward. But we certainly need this Committee's assistance and guidance. And we will be happy to work with you in any way possible going forward.

And for this time, I am most appreciative.

Chairwoman VELÁZQUEZ. Thank you, Ms. Baker.

And I would like to add regarding the grant program. That is not opened ended and it just solely for this instance, the Gulf Coast disaster.

Mr. Chabot, would you like? Any Member who would like to—

Mr. BAKER. I will take answers, too.

Chairwoman VELÁZQUEZ. Well, thank you very much, sir.

Mr. BAKER. Thank you very much.

And now I will welcome the next panel to please take your seats.

PANEL I: HERBERT L. MITCHELL, ASSOCIATE ADMINISTRATOR FOR DISASTER RELIEF, SMALL BUSINESS ADMINISTRATION; JAMES LEE WITT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, JAMES LEE WITT ASSOCIATES, A PART OF GLOBAL OPTIONS GROUP, INC.; HARRY C. ALFORD, PRESIDENT AND CEO, NATIONAL BLACK CHAMBER OF COMMERCE; MARGOT DORFMAN, CEO, U.S. WOMEN'S CHAMBER OF COMMERCE

Chairwoman VELÁZQUEZ. Our first witness is Mr. Herb Mitchell. He's the Associate Administrator for the U.S. Small Business Ad-

ministration Office of Disaster Assistance. He is responsible for administering, planning, developing all aspects of the SBA Disaster Loan Programs.

Mr. Mitchell?

STATEMENT OF Mr. HERBERT L. MITCHELL, ASSOCIATE ADMINISTRATOR FOR DISASTER RELIEF

Mr. MITCHELL. Good morning, Chairwoman Velázquez, Ranking Member Chabot and the distinguished Members of the Committee.

Thank you for inviting me to discuss the legislative proposals effecting the SBA Disaster Loan Program. My name is Herb Mitchell, I'm the Associate Administrator for Disaster Assistance at SBA.

Under Administrator Preston's leadership we are well on our way to fixing the many problems experienced by disaster victims following Hurricane Katrina. The agency is seeing benefits of these new procedures in most recent disasters where over 98 percent of all the applications are currently being processed within 14 to 16 days.

We continue to focus on enhancing our training, improving our IT infrastructure, improving our systems and improving our planning process.

We are currently providing the States, both Louisiana and Mississippi, with information to support their community development block grant funded programs. We are completing the process of reengineering the loan underwriting process, the loan closing and disbursement process. We are finalizing the search plans of how we would respond in the future to catastrophic events. We are exploring ways to work with the private sector to provide more effective support.

We hope through the legislative avenues of this Committee we can reach out to other disaster victims that the SBA currently is unable to assist with working capital. By granting SBA the authority to provide economic injury disaster loans to nonprofit entities, the agency would be able to help groups and such organizations whose main focus is to help others.

The Administration has no significant objections to Title I of the draft bill. However, the Administration does believe the creation of the Associate Administrator for Disaster Planing is unnecessary and also limiting the reserve core staff to no more than 30 percent in any one region may adversely impact our recruiting efforts and unnecessarily increase the cost of the program.

The Administration does have reservations with the second title of the bill as it relates to the lending aspects of the program. Section 203 would create a bridge for financing program where borrowers would likely pay higher fees and interest rates on the short term financing, and the Federal Government would then have to pay administrative costs for two programs to deliver the same assistance for short term loans, later refinanced through the regular disaster program.

Section 204. Providing for noninterest deferment period of up to four years would require a massive subsidy in order to cover the interest subsidy costs during this period.

Section 205. The Administration already has the flexibility to adjusting repayment terms and can offer deferments up to two years

or more. Mandating that SBA set payments below what is affordable and use specific deferment period will unnecessarily increase the cost of the program.

The Administration has similar concerns regarding Section 206 and the disbursement process. Making disbursements without regard to the amount of funds actually needed at the time may increase the risk of misuse of those funds.

Section 207. The Administration would appreciate further information regarding this provision. As we understand it, the intent is to allow business loans under $100,000 to be made without allowing SBA to use the borrower's personal homes as collateral. This prohibition would limit collateral and, of course, increase losses and effect the subsidiary costs of the program.

Section 208. SBA believes there is a role for the private sector in assisting SBA in processing disaster loans in times of a major or catastrophic disasters and will continue to work with the banking community to find a beneficial solution. We are concerned that mandating the use of private sector in specific situations would limit our flexibility. The Administration would prefer language allowing the Administrator to use these service at his discretion.

The Administration is opposed to Section 210. This is duplicative of existing programs within the Federal Government. In fact, the State of Louisiana is currently providing grants to small business through the HUD CDBG funding program. SBA would be establishing a new program to duplicate assistance already being provided.

The Administration objects to Section 211. If a disaster victim receives an insurance payment or grant to assist in rebuilding a damaged property for which a disaster loan was provided, the Agency has an obligation to the taxpayers to ensure that Federal assistance does not exceed the amount of the losses. Under this provision a disaster victim could receive as much as twice the amount of Federal assistance for the same loss.

In regard to the increase in the maximum loan amount in Section 212, the Agency feels that it is not necessary. Our data shows that only 600 applicants exceeded the $1.5 million threshold in their damage assessments. The Administration is also worried that increasing the subsidized loan amount will lessen the incentive for those businesses to acquire sufficient insurance.

In Section 213 the Administration understands the need to allow businesses to recover from disasters and our lending is based on that premise. However, SBA also believes that once a business has recovered it should repay the loan as soon as possible and minimize the cost to the taxpayers.

While we certainly have some concerns with the legislation in its current form, we hope we can work closely together with you and Members of the Committee and your staff to make sure that in the future the problems that SBA faced in response to Hurricane Katrina certainly will not happen again.

We look forward to your questions, and thank you for the opportunity to appear today.

[The prepared statement of Mr. Mitchell may be found on page 47 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Mitchell.

And our next witness is Mr. James Lee Witt. Mr. Witt is currently Chairman and Chief Executive Officer of James Lee Witt Associates, a public safety and crises management consulting firm that provides disaster recovery and mitigation management services to state and local governments, educational institutions, the international community and corporations.

Mr. Witt has over 25 years of disaster management experience, including 9 years of service as Director of the Federal Emergency Management Agency.

Mr. Witt, welcome. And I am personally very grateful that you are spending some time with us this morning.

STATEMENT OF JAMES LEE WITT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, JAMES LEE WITT ASSOCIATES,PART OF GLOBAL OPTIONS GROUP, INC.

Mr. WITT. Thank you, Madam Chair and Members of the Committee.

Thank you for giving me the opportunity to share with you some success stories as well as some thoughts and ideas that may be helpful to this Committee as you move forward.

When I was Director of FEMA we depended on SBA. SBA was joined with us at the hip. All 350 disasters that we responded to, SBA was at our side responding to that community with us.

SBA and FEMA even had cards that shared information for SBA on one side on their disaster programs and FEMA disaster programs on the other side. We worked very closely together because it was important that the people that we were trying to serve saw that the Federal Government was responding and meeting their need and helping them, not only in the short term but the long term recovery efforts.

And I really appreciate all the hard working folks at SBA who sacrificed their personal time with their families during disasters that I was there to make sure that we did provide the kind of customer services that the American people expected.

Small businesses recovery is critical for community recovery, particularly in short and long term. Small businesses in this country provide the most jobs in local communities.

The SBA programs are a very important tool of Federal Government's tool chest disaster recovery work.

And I see the current situation for SBA has been very similar to what we faced when I was the FEMA Director. It is kind of like a deja vu all over again. I believe that many of the solutions for repairing SBA currently are very much like the ones that were needed at FEMA during the time that we started in 1993: Expediting assistance to victims; cutting red tape; better budgeting and planning; training and empowering. Empowering employees to make decision to be able to do their jobs.

Congress and the oversight committees play a very critical role in the reinvention of FEMA. So I am glad to contribute to your work today.

Leaders like Congressman Louis Stokes, Congressman Jerry Lewis, Senator Barbara Mikulski, Senator Kit Bond; all that had played a very, very critical in helping us to reinvent and refocus FEMA by providing not only support and policy and revolutions

and changes, but also funding. Make sure that we had the funding to do what we needed to do and had the tools to do our job within the Agency and working with states and local governments. And it was a bipartisan effort.

Partnership between the Administration and Congress allowed us to look at legislative changes and clarifications, which we did.

Prepositioning resources before disaster every happened, which was unheard of.

Creating a Federal coordinating officers cadre, expanding the disaster reserve cadre, providing the funding to expand it to all FEMA ten regions and funding the training and maintaining that training and certification of these employees.

We did not want to go through a response like FEMA had gone through with Hugo and Andrew. We wanted to make sure we had the people and resources in place to be able to respond to meet that need, no matter what the size of that need was.

We did cross training of nondisaster program employees. We used technology to improve inspections and to improve our response to individual needs, particularly individual family grant programs and temporary housing programs.

I mention my experiences at FEMA not to relive those days, but to offer some hope and encouragement, and possibly a blueprint to maybe to help you as Members of the Small Business Committee and SBA to begin working on it together.

I believe the legislation that the Committee has drafted is what is needed to sorely improve the SBA Disaster Program. I agree that SBA must have comprehensive disaster response plans in place that incorporate an all risk, all hazard approach. SBA is training and exercising these plan with all of its partners at the Federal, State and local level ahead of time. And it is critical for the agency's readiness. And I know that SBA also has a reservist corps. But it is important to keep these folks involved and trained so they remain part of the disaster cadre.

SBA and FEMA had ten regions. And if you look at those ten regions and if you look at the highest risk reasons, and if you maximize the amount of disaster reservists that you could have in the highest regions, but also have them in all ten regions to support that area when you have an event like Katrina or the four hurricanes in Florida, to be able to deploy them to support that event, it is very important. But it is important to keep these people trained. You cannot respond to an event without trained people. And you cannot train people on the ground in the middle of a response and be effective.

Cross train employ some other agencies, which we did, was a huge help for us. We would go out to Federal agencies and said do you have employees that we can cross train to help us in a disaster operation center or help us in the field. And they were more than willing to allow their employees, particularly employees that were on a career path to get that experience, that knowledge and that capability.

Also if SBA is not doing it already, they should do a cost analysis of what were the five most costly years in an SBA disaster declaration. With the exception of Katrina and Rita, your most costly. But what was the five year average cost per year of an SBA disaster

cost. And they probably already have that. But what we did and what worked so well with Congress and with OMB was we were able to use that five year cost analysis to set up a contingency fund that was under OMB that was budgeted, that you did not have to go back for supplementals every time you had a disaster declaration. And then all we would do then is go to OMB and say we have a Presidential disaster declaration that's going to cost $400 million.

Our per year average for FEMA over five years was $2.5 billion. That might be helpful. I do not know. It is just a suggestion. It worked extremely well for us.

When I was at FEMA we worked so closely with SBA. And one of the most important things that we did with SBA is when we set up the 1-800 teleregistration system at Hyattsville, Maryland and Puerto Rico and Denton, Texas and Mount Weather. Even American Airlines as the backup system to us on teleregistration taking applications for people calling in.

SBA was in that teleregistration center. We got a call from a small business that came to one of our teleregistrations people, they would just automatically switch it to SBA in that teleregistration center.

Let me just say this: During the time of the eight years that I was there I saw not only FEMA that was able to get individual checks to people that were eligible within seven days. I saw SBA that were able to take loan applications, process it and have it closed out within 30 days.

They did a great job. But I want to say this in closing. You have to empower the SBA Administrator and the career people at SBA to be able to do their jobs and do it well and fulfill their role and responsibilities. And my hope is that with your help and with your legislation you can help create that atmosphere where that they can move forward, and they can cut the red tape and they can make sure that small business in this country and homeowners recover much fuller and must faster.

We did a survey with SBA back, I cannot remember the year that we did this, particularly after some of the major disasters. And we found in even small, medium or large disaster, that small businesses that were effected by a disaster, up to 30 percent of those never recovered or never reopened. When that happens you lose the heart of a community. And I think SBA is in a position to help maintain not only the viability of a community, but also help in the long term recovery efforts far greater than any other Federal agency.

So thank you, Madam Chair.

[The prepared statement of Mr. Witt may be found on page 52 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, sir.

Our next witness is Mr. Harry C. Alford. Mr. Alford is the President and Cofounder of the National Black Chamber of Commerce. The National Black Chamber of Commerce is a nonprofit, nonpartisan business association that represents over 95,000 black owned businesses and advocates on behalf of more than 1 million black owned business.

Welcome.

STATEMENT OF HARRY C. ALFORD, PRESIDENT AND CEO, NATIONAL BLACK CHAMBER OF COMMERCE

Mr. ALFORD. Thank you Madam Chairwoman, distinguished Members of this very important Committee.

I appreciate the opportunity to discuss a few things that I can get off my chest.

I notice the timers working now on me. The previous two did not have a timer.

But, yes, Mr. Witt, those were the days. I remember my first meeting with Mr. Mitchell in 1994. The National Black Chamber of Commerce had maybe 18 chapters. And the SBA have over a staff of over 5,000 well trained individuals. They had a budget of $860 million. They were the resource for small business.

Since 1994 small business has boomed. The African-American segment of the small business community has grown from 1997 to 2002, according to the Census Bureau, a growth of 42 percent. There are over 1 million black owned businesses today doing very much and doing well.

The State of Louisiana had the 11th highest population of black owned businesses in the nation.

Since 1994 the SBA has been increasing and shrinking and shrinking each budget cycle less, less, less. It was set up to the point that a disaster was going to come, and Katrina presented that opportunity.

We are faced with an ever competitive global market and yet we have dwindled the SBA to a point of anemia. Our readiness has been depleted and the SBA became a disaster waiting to happen. Eventually the challenge submerged at the start of Katrina. Yes, it was the greatest natural disaster in our recorded history, but the worse came with the response that could not even attempt to be adequate or meet the demand.

I welcome the proposed legislation as improvement and as progress, and perhaps a turnaround to the attempts of many to do away with the SBA, to the point of it being almost lifeless.

In terms of planning, the SBA should be required to develop, implement and maintain a comprehensive written disaster response plan based on the intensity of Katrina. Office space staffing system complete with coordination scenarios with applicable Federal agencies should be established as soon as possible. This plan should be tested through drills and exercises that would simulate a major disaster. These plans should be realistic with proper resources and not designed as blue skies.

There should be a position established to administer the project, and an associate administrator for disaster planning should be created to coordinate with the SBA associated administrator for the Office of Disaster Assistance, FEMA and other Federal, State, local disaster planning offices as necessary.

This officer will report directly to the Administrator and will be responsible for planning for and leading the agency's annual training exercises. It should go without saying that this person's background will be consistent with the duties assigned. In other words, let us not have a simple political appointment without rhyme or reason, Michael Brown, who will have a meltdown during the first crises.

In regards to lending we must have a comprehensive program that will significantly increase legislative limits on business loans. The process for personal and business lending should be streamlined to expedite funding and a system that is punitive to the borrower in terms of repayment period and subsidies. We can enhance the lending authority for our preferred lenders so that they can originate, process and disperse home disaster loans for a small fee.

Short term loans similar to the bridge financing provided by the Mississippi State Legislature should be provided so that businesses can get started immediately with the rebuilding while they wait on the traditional disaster loan process.

Grants for certain conditions can also be considered in order to jump start local rebuilding of businesses that provide jobs to the effected areas.

The SBA should have adequate funding for outreach and marketing. Businesses within our communities rarely know what the SBA is and its programs. I dare say that the majority of the over 1 million black owned businesses in this nation do not know the address of the nearest SBA district office or the district manager and the applicable staff. Whether they are a mile away or 100 miles away, there's no adequate interaction. SBA where are you?

Thank you, Madam.

[The prepared statement of Mr. Alford may be found on page 60 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you.

And our next witness is Ms. Margot Dorfman. She is the founder and CEO of the U.S. Women's Chamber of Commerce, an association that advocates for economic policy and community interest on behalf of women owned businesses.

Welcome.

STATEMENT OF MARGOT DORFMAN, CEO, U.S. WOMEN'S CHAMBER OF COMMERCE

Ms. DORFMAN. Chairwoman Velázquez and Ranking Member Chabot, Members of the House of Small Business. My name is Margot Dorfman. I'm CEO of the U.S. Women's Chamber of Commerce.

And I am pleased to be here today to share the U.S. Women's Chambers of Commerce strong support to the RECOVER Act of 2007, an important piece of legislation that will give small business owners the security of knowing that the Small Business Administration will have an effective plan in place to meet their needs in times of crises.

The 2005 Gulf Coast hurricanes had a dramatic impact on the small business members for the U.S. Women's Chamber of Commerce. But as much as they were alarmed by the damage the storm caused to their communities, they have also been shocked by how badly managed the disaster response has been.

Time is of the essence in these emergency situations. For many of our members timeliness proved as important as receiving the assistance itself. It was clear that the SBA was completely unprepared to deliver disaster assistance on the scale that was demanded. And certainly not on a time frame that would have expedited recovery. Instead of executing a plan that was already in

place, the Administration reacted to events on an ad hoc basis, ramping up employees in locations as the demand grew. Unfortunately, that meant that by the time additional resources were added small business owners were already experiencing the terrible customer service that came to characterize the SBA's handling of the response to the 2005 Gulf Coast hurricanes.

The U.S. Women's Chamber of Commerce enthusiastically supports the RECOVER Act of 2007 because it requires the SBA to look ahead to future disaster and plan for a variety of possibilities. Readiness is the key to delivering timely, effective disaster services.

This year communities around the country have called on the SBA to respond to a variety of nonhurricane disasters from ice storms in Iowa to tornados in Florida. It is vital that the strategies be in place to respond effectively to the needs of small businesses regardless of the location, size or the type of disaster.

In addition to creating comprehensive disaster readiness plan, the RECOVER Act also requires the SBA to maintain those strategies over a long period of time. At the U.S. Women's Chamber of Commerce we believe that this is a critical function of this legislation. Although many people are still struggling to recover from recent disasters today, it is important that the SBA's disaster readiness not be allowed to atrophy in the future when conditions for victims of the 2005 Gulf Coast hurricanes have improved.

Ten years from now we hope to see the SBA with a robust, agile disaster loan program that has comprehensive and practiced plans for a variety of disasters.

This legislation also makes important updates to the SBA's disaster lending process, systems that the 2005 Gulf Coast hurricanes demonstrated were badly in need of modernization. By providing solutions to problems that the SBA had in processing and approving and dispersing loans in a timely manner, the RECOVER Act will increase legislation recognizes that assisting small business owners after a major catastrophe is not a one size fits all proposition. It will give the SBA more tools to provide small businesses with relief depending on their individual circumstances, including bridge loans and grants.

This legislation will allow the SBA to get private lenders involved to provide timely and effective service to business owners in these disaster situation. Entrepreneurs will have access to the same affordable SBA loan with low interest rates and long repayment terms, just at a different location serviced by a bank in their community.

In closing, I want to thank the Members of the Small Business Committee for actively addressing the problems so many business owners experience after the hurricanes in 2005. It is critical that we learn from those experiences the kinds of stories we are still hearing from our U.S. Women's Chamber of Commerce members 18 months later and make the needed changes that will ensure that if such a terrible disaster happens again, the SBA will be in a better position to help entrepreneurs get back on their feet.

I thank you again for your time today. And I welcome any questions that you may have.

[The prepared statement of Ms. Dorfman may be found on page 64 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Dorfman.

Mr. Witt, the Administrator of the Small Business Administration has said that oversight and legislation was not needed to address the problems in the disaster program and that operational fixes in the Agency's internal policies and procedures offer a better solution. Would you agree with that perspective?

Mr. WITT. Well, it would be hard for me to determine whether or not I would agree or disagree with them. Of course, I have not looked at SBA at a long time. But after looking at the legislation that you have put forward, I think the SBA working with this Committee on that legislation would be an advantage to them to improve the services and the capability of SBA for the future.

So, you know, just based on what you are going forward with I think should help SBA substantially in their processes and what they do everyday.

Chairwoman VELÁZQUEZ. Mr. Mitchell, last month I asked Administrator Preston for the specific time as to when the agency will have implemented a comprehensive written disaster plan with data from disaster simulations. We are now one month closer to the next hurricane system. What can you tell us?

Mr. MITCHELL. Well, the Agency had made substantial progress in getting a plan in place. The Deputy Administration has been designated the point person on this, and she has all of the Agency's resources available.

I can tell you just this week there have been at least eight or nine people working pretty close to four to six hours a day in terms of—

Chairwoman VELÁZQUEZ. When are you going to have a plan, sir? Our concern here is—

Mr. MITCHELL. I understand. And the Administrator has charged the Deputy with getting that done.

Chairwoman VELÁZQUEZ. He is going to charge the Deputy?

Mr. MITCHELL. She has already been tasked with getting that plan done and presenting him with a draft to start the internal review process.

Chairwoman VELÁZQUEZ. The Administrator was before this Committee close to a month ago. And I think that we all saw what happened with the inefficient, ineffective response coming out of the Small Business Administration. Here we are a month before the next hurricane season and you are telling me that just the Administrator charged the Deputy to come up with it?

Mr. MITCHELL. A lot of work has already been done in terms of developing the service plans, developing scalability models, looking at the forecasting data, pulling all of the information together in terms of how we are going to coordinate with the districts.

Chairwoman VELÁZQUEZ. Are you telling me 18 months later after Hurricane Katrina touched down, the SBA does not have a plan?

Mr. Witt, in its most recent report the General Accounting Office recommended that the SBA consider using disaster simulations and catastrophic models in its disaster planning process. In his testimony before the Committee, the SBA Administrator said that

these tools are cost prohibitive. In your experience what is the value of these values relative to the cost?

Mr. WITT. Well, I think probably, you know, we used to does this all the time, and I know they still have this as FEMA as a modeling tool.

We did a simulation on Miami with a category 4 hurricane hit in the city of Miami using the model. And the estimated losses there at that time, back in the '90s, it was like $85 billion just for the city of Miami.

So you can take any of the Federal agencies that has the modeling capability, whether it is SBA or FEMA or Corps of Engineers or DoD. You can utilize those existing modeling simulations and capabilities to do what you need to do and looking at all your high risk states or local communities and come up with a simulated cost of what you particularly have in case they were hit.

Chairwoman VELÁZQUEZ. Are there more cost effective ways to integrate these tools into the disaster planning process?

Mr. WITT. Absolutely. In Lafayette, Louisiana, the University of Lafayette, and at many universities in the United States are doing modeling, just as we speak, and has the capability to link into any Federal agency.

Lafayette University has the third largest super computer in the world. You can give them a simulation or a different scenario, they will plug it in that super computer and they can spit you out a model instantly. And any Federal agencies or any local governments can access this. And it's very cost effective.

Chairwoman VELÁZQUEZ. One other thing that we gathered from the hearings that we conducted regarding the disaster relief lack of planning and inefficient response is that the disaster planning is decentralized and fragmented. The Agency delegates planning to local agency officials. And their reason is that these individuals are in the best position to estimate the Agency's needs.

The Agency maintains a variety of documents detailing the SBA's policies and procedures for responding to a disaster. In your experience is this approach adequate to fulfill the need for comprehensive disaster planning?

Mr. WITT. I am just basing this on my experience in what we have seen and done.

It is very important whether you are a local government, a State government or a Federal agency in the Department of Federal Government that you have a plan that is in sync with not only at the national level, but also in all the district and local levels. And that plan is not only exercised and tested. Because if you just have to do the planning and the exercising in the region or the district level, then if you have an event and have to respond, there is no way that the national and the local and the region is going to be in sync. So you really need a national plan for a Federal agency that is linked to the national response plan.

Chairwoman VELÁZQUEZ. Thank you, Mr. Witt.

Mr. Alford, you heard the testimony from the Administration's position regarding the disaster, the RECOVER Act. And they say that the grant program under this legislation is duplicative of other programs in the Federal Government like the CDBG program.

Based on what you have heard from your members why is not this program duplicative of any other grant program that exists today.

Mr. ALFORD. Well, first the Community Development Block Grant money is not reaching our businesses in terms of Louisiana and New Orleans, it is good for home ownership and it is good to pay off some federal debt. You know, it is HUD covering the back side of the SBA loan program. It is doing nothing for individual businesses.

Secondly, the whole administration of this Road Home Program, John Gotti could not have written a better picture where you have got D.C. grants, D.C. contracts going to people who have to clue of how to manage this program. And they are raking the money off of the top. They were trying to give out home loans without appraisals. And people were being lowballed because they were not adequately appraised. So after all the complaints they come up with a group of appraisers from California to come to Louisiana. I think Congressman Jefferson will tell you, there are plenty of good appraisers in Louisiana. But that message is sent that this is about grab bag money, it is not about business development or disaster relief.

And for the SBA to say that is good enough when they should be the experts at providing grants to businesses and have a database of businesses and know the ones that have a good chance of recovery with a little grant money, why are they walking away from that? Why are they shying away from that? Why are they not embracing that idea?

Chairwoman VELÁZQUEZ. Thank you.

Now I will recognize Mr. Chabot.

Mr. CHABOT. Thank you, Madam Chairwoman.

Mr. Mitchell, if I could start with you. I just wanted to state for the record that we share the concern of the Majority on preparing a disaster plan, getting it done. You know, we certainly do not want something hastily thrown together just to get it done. It ought to be done right. But it certainly should be a priority of the SBA. And I would assume that it is a priority?

Mr. MITCHELL. Well, we wholeheartedly agree and this Administrator is committed to getting it done.

Mr. CHABOT. Okay.

Mr. MITCHELL. Certainly committed to getting it done.

And on the area in terms of catastrophic risk modeling, we are looking at the data. We have already met with the folks from FEMA. We have access to their information. And our plan is to take that data and those models and test our plan against that data.

Mr. CHABOT. Thank you.

Let me follow up. Has the SBA estimated the cost of performing an annual disaster simulation exercise?

Mr. MITCHELL. Well, we have looked at various models in terms of, you know, do we do a full scale exercise, do we do tabletops, do we exercise certain portions of the plan. For example, the field operations. And, obviously, there could be a myriad of things that you could do. It could range, our estimates, anywhere from as low as $50,000 to a million dollars.

The plan is to have a series of exercises over a period of time.

Mr. CHABOT. All right. Thank you.

Mr. Witt, let me turn to you if I can.

What role should business interruption insurance play in a business disaster preparation?

Mr. WITT. A very important role. You know, if a business has business interruption insurance, it is much easier for them to recovery much faster.

I also want to speak just a moment about the grant program that we were speaking of real quick.

Mr. CHABOT. Okay.

Mr. WITT. The grant program for a small business that has been approved for a small business loan, particularly acting as a bridge to be able to get that recovery effort moving, particularly in catastrophic events like Katrina is really, really critical.

You know, Governor Blanco set up a bridge loan to the parishes because they had zero revenue. And these communities right now, these small businesses, they cannot go back and get started back without some bridge of some help. But many times, and Herb will tell you this, he went with me many times to many events. But the business interruption losses, a lot of small businesses across the country do not have this. They cannot afford it. And so they are in a situation of providing jobs for 5 people or 10 people and keeping their businesses open, and they have to cut costs everywhere they can. You know, it may be health insurance, it may be others. But a lot of them cannot afford that and stay in business.

Mr. CHABOT. Thank you.

Mr. Alford and Ms. Dorfman, in the time that I have remaining I would like to ask you all a couple of questions.

Both of your organizations had members effected by Hurricane Rita and Rita and Wilma. How many of those members, if you know, are still not fully operational relative to the businesses?

Mr. ALFORD. I would guess 70 percent.

Mr. CHABOT. Seventy percent are still not operational?

Mr. ALFORD. Not operational. And the ones who are operational were just very exceptional individuals. Strong individuals with some good strong savvy and could go to the President of Shaw or Bechtel and come out with some business. But those relying on the SBA to get them contracts in this rebuilding, they have not received anything.

Mr. CHABOT. Ms. Dorfman?

Ms. DORFMAN. I would say the majority of ours have, as well, they are still in challenging situations. Many of our members actually moved out of the area so they could start business again. Many of our members have not received loans to date. So there is still an ongoing problem in the region.

Mr. CHABOT. Okay. Thank you.

Yes, Mr. Alford?

Mr. ALFORD. If I could say, the President of the New Orleans Regional Black Chamber of Commerce has a cement company. And he was the first black contractor to be utilized in the Katrina disaster by way of the Corps of Engineers stealing $300,000 worth of his sand that he had warehoused at the New Orleans Air Port. And that was two years ago, just about, a year and a half. He has not been paid for that $300,000 yet.

Mr. CHABOT. And finally, how hard is it for your members to plan recovery in areas that were effected by Hurricane Katrina when they do not know whether the area will have sufficient residents to support their businesses? And that was mentioned by Mr. Baker, Congressman Baker in his testimony. But I would like to hear from you all, if we could.

Ms. DORFMAN. Well, it is very difficult. Some of the challenges that our members had when the hurricanes first hit was I have one member who when I spoke with her, she had lost her home, she had lost her business and she lost her mother. So we are talking devastation that is unthinkable. And now she has to think about how do I find an SBA loan? How do I actually go about it?

When they finally got her the paperwork she was overwhelmed and she could not even continue forward. And I think that is what we are looking at. It is more then, gee, there is an issue and we have to get a loan. There is a great deal of trauma and grief that is going on. And those businesses who are having trouble just keeping their heads up, let alone where is my paperwork because my computer system is down, so I don't have the documentation to file to get a loan. That is where the grants are going to be so important to come in to help in that interim while they are trying to pull that information together so that they can actually apply for a loan and, hopefully, get one.

Mr. CHABOT. Thank you very much.

Ms. Alford?

Mr. ALFORD. Yes. You really have to admire the resilience and the creativity of a lot of the people, particularly in New Orleans.

There is a barber who put up a tent at a gas station, on the grounds of a gas station and got a generator and reopened his barber shop in that tent. Last month he moved into a building.

There is a lady who waits tables at the W Hotel who was realtor prior to Katrina. She and her sister moved in together and they rented out the lower level of their house, which was gutted. They rented out the lower level to a contractor who will bring spare parts and pieces and drywall and start reassembling their house.

But it is that kind of resilience that are making them stand on their feet and get back together. It is a shame they are their own though. It reminds me of my grandfather during the depression. Have we not come beyond that?

Mr. CHABOT. And that is why I want to commend the Chairwoman for holding this hearing. Because with the resilience of the people and what they have done to try to bring their lives back together, it is unfortunate that the Government was not up to the task, and we need to learn those lessons and do much better the next time.

Thank you.

Yield back. Thank you, Mr. Chabot.

Mr. Jefferson.

Mr. JEFFERSON. Thank you, Madam Chair.

It is hard to know where to begin with the questions.

Let me ask you about the small business loans and how they have affected your members.

Well, let me just make a statement. The CDBG money that is available to small business is very, very small. Out of the money

that the $10.5 billion has been allocated, as I am sure the Committee members know, only $168 million has been available to small businesses and small business grant. Of that amount, there's a limitation. No small business may receive more than $20,000.

So if you receive a $20,000 grant and then you are lucky enough to get an SBA loan, you pay that $20,000 to the SBA when no one would claim ever that it is enough to get your business going.

So how is it a duplication? The only way it could ever be a duplication is if you got enough to fully recover your business, and this is on top of that. That is not happening.

So the argument that this a double dip for people in Louisiana is quite misplaced and I really wish the Administration would think about that and try to help us find solutions and maybe tone that idea down.

The same would apply to homeowners. And I just got to ask you about this. So Mr. Mitchell, you would agree with me that in a case where the Road Home Program — not Road Home, the CDBG is only $20,000, there is hardly any chance for a duplication. Would you not agree with that?

Mr. MITCHELL. Well, there is a great deal of flexibility when you are working with small business. And what we are really talking about here is working capital and what the purpose of that grant fund is.

Obviously if it is going to repair, replace the same thing that we have made the loan for in terms of the physical loan, obviously we have to take a look at that. But I would suspect that most of these cases it is going to operating capital. And in most cases we are able to determine that there is additional injury or additional recovery period. And I would dare say in the majority of these cases there would be no duplication.

Mr. JEFFERSON. I would think not. I would think hardly any of it there would be duplication. And just to put people through all these hoops to go and explain it that it is not duplication, it just delays process. We need to find some more mays of dealing with it.

Mr. MITCHELL. Right. Understand. We have a team of folks that are working this. Our average turn around time right now on all of the grant program is three hours. Once we get the information the state—

Mr. JEFFERSON. What is it now?

Mr. MITCHELL. Three hours.

Mr. JEFFERSON. Three hours.

Mr. MITCHELL. We are able to basically do that process, get it done in three hours and get them the information back the next day.

Mr. JEFFERSON. Well, I would like to see the report on that, you know, that sort of experience. Because it is not what we hear.

And let us talk about the Road Home Program money.

Mr. MITCHELL. Yes.

Mr. JEFFERSON. It is equally problematic. And I think you should understand how it happens. Here is a reading from the "Times Picayune" from which I do not read all that much, but nonetheless here is what I think is worth reporting to you.

"If you receive an SBA loan for personal property," this is quoted from a resident there. "The way the SBA loan reads is if someone comes along and gives you some other money for this, you got to pay the SBA back" this Ms. Alan Langhorn says. This is a resident whose home flooded with about five feet of water. They say oh, that is duplicate funds, so they demand their money back.

With the Road Home Program what happens, he asked. If a person gets $150,000 from Road Home Program but SBA already gave that person $90,000, suddenly you only got $60,000 the person says.

Clearly this is an extraordinary circumstances. So the normal standard SBA contract everyone is signing right now should be disregarded.

Tell me how you would deal with that. Here is a person, the only again this would ever be a duplication, that the person got enough to fully bring the house back. And here is the reason why they do not. Most people have a mortgage on the house and they are trying to pay the mortgage payment. They go to the SBA and they say I want a loan. The SBA, they may go out assess the damage and say you need a loan for, let us say, $200,000. But you are already paying a note, so therefore you cannot afford the whole amount. So this is all that is available to you.

So you make a decision and you do what you can, and you get a $100,000 when you know it takes $200,000. Road Home Program comes along and they never give you 150. Forget that. The average grant amount is 68. But that is also skewed. Because the folks that are getting them now are the people who have the better houses and who are able to make their case better than the folks who have the less good houses. So you are going to see that $68,000 figure go down and down over time.

But bottom line is no one is getting from the SBA, hardly anyone, is getting what they need to build back because they cannot prove they can pay the loan back. And consequently, they are just getting what they can and then hoping that Road Home Program will fill in the gap. But then Road Home Program comes along and it is just taken away, and they hardly ahead and they cannot get back home.

So do you not agree that there is need for some way to get after this differently than just saying it is double dip?

Mr. MITCHELL. Well, I think you have to start with the premise that the laws that are in place prevent us from providing assistance for the same loss using Federal dollars.

So if the loss to the property, let us say, is $100,000 and we make a loan for 100,000 and that home is rebuilt with that 100,000, next they get a grant for a 100,000. The grant goes and it is for the purpose of repairing and replace that home, it goes to pay down the loan. The net result is, yes, that individual still had a mortgage but they had a mortgage predisaster. But they end up in a situation where they have their home repaired with no doubt.

Now, in doing the calculations if in fact the amount that we have determined is not sufficient, we simply increase the eligible amount which then allows them access more to the grant funds.

Mr. JEFFERSON. I am afraid that is not how it is happening.

Mr. MITCHELL. I can tell you that we have processed over about 3600, and only about 20 percent of these actually end up being duplications. But we are required to look at it, at least look at it.

Mr. JEFFERSON. But what is happening to folks back home is they are having to pay these loans off and they are getting small grants and they are not getting enough to get back into their homes.

So now you say in both cases that the people can come and present the evidences, then they can get relief. It is an awfully hard process. You say three hours. God, I wish it were three hours. I hope it is. But we do not find that to be the case.

Here is what we need from you.

Mr. MITCHELL. Yes.

Mr. JEFFERSON. Some ideas about how to make this work. If you do not like Section 211, give us something other than just an objection it is duplication. That does not help. Because people really are suffering through this.

Mr. MITCHELL. Understand.

Mr. JEFFERSON. And it does not really help to have a case-by-case review.

Now the big problem is people are not qualified both on the business side and the homeowner side for what they need to build back their homes. That is the fundamental problem. They do not qualify because they have another, in the case of a homeowner, another mortgage. In the case of a small business, he cannot prove he is going to have customers or he cannot make projections on the business as he normally could. So they are both in terrible positions. And it just absolutely does not work to treat it as a normal circumstances.

Mr. MITCHELL. The only thing I would really suggest, I mean part of the challenge here is figuring out if you are going to structure a program how they do not duplicate and you still meet the peoples' need. I mean, if you start from that basis—

Mr. JEFFERSON. I am asking you to help us do that.

One last thing, Mr. Alford, I want to ask you this question. I have talked—and I do not know whether this is the place to do it, Madam Chairlady, in this bill. Maybe in a stand alone we would find some way. But we have 8(a) contractors back home who normally enjoy nine year life on the program. They had their enjoyment of that privilege interrupted, as well as anybody in small business down there. So they got 7° years, as you say, with the year on top of it instead of nine. Do you not think it is fair that we find someway to extend the life of the 8(a) contractor? Not to extend it past 9 years, of course, but extend it up to 9 years to the extent that they—let us say we had another 18 months just to the enjoyment of the program if they were in the New Orleans area or the St. Bernard or any other place that was effected. So that they may have the same privileges anyone else in the 8(a) program?

Mr. ALFORD. Absolutely. And in fact during this recovery, 8(a) activity, real 8(a) activity, small minority businesses in the 8(a) has been cut off. Alaska Native corporations, large white owned, white managed male owned with a little paper transaction subsidiary to a tribe in Alaska, they have garnered over 80 percent of the contracts let by the Federal Government in the disaster recovery.

I cannot get from the SBA the latest procurement report that would list the 8(a)s doing business, because they know I am going to go analyze and make phone calls and travel down there that see that these 8(a) firms are not even active in the contracting mix.

So, yes, it should be stretched for those who are out of business. And for those who are actually in business now who have been frozen out of the Federal procurement process.

Mr. JEFFERSON. Madam Chairman, do you think that some way this Committee can ask this information that Mr. Alford and others cannot get. Just to see how much 8(a) has been utilized now in this recovery effort?

Mr. ALFORD. Madam, I personally asked Administrator Preston about six months ago, and he informed me that he was get it right to me. That was six months ago.

Chairwoman VELÁZQUEZ. Mr. Jefferson, we are going to be looking at the contracting practices.. And we will be holding a hearing. We are planning to hold a hearing in the Gulf Coast.

I now will recognize Ms. Clarke.

Ms. CLARKE. Thank you very much, Madam Chair.

And thank you all for your testimony here this morning.

It is really troubling, Mr. Mitchell, to see that this issue of planning seems to be stuck in a rut. Everyday life goes on and we do not know what disaster will bring. Can you say today what time frame we are talking about, not only for the plan—

Mr. MITCHELL. Sure.

Ms. CLARKE. —but its implementation?

Mr. MITCHELL. Sure. Well, clearly the intent is to have the plan in place before the next hurricane season. But I can also tell you that parts of the plan area already—

Ms. CLARKE. But with all due respect, hurricane season begins next month.

Mr. MITCHELL. June 1st.

Ms. CLARKE. June 1st. So you are saying June 1st we should expect a plan?

Mr. MITCHELL. The plan will be in a place. But I can also tell you that parts of the plan are already in place and we are using. We are using the forecasting models. We are using the scalability models everyday. You know, in terms of the plans dealing with how we upgrade the systems in space, we have already implemented those things.

You know, it is a matter of pulling all of this information together to come up with a final product. But components of the plan are in place and being used everyday.

Ms. CLARKE. And do you believe that its implementation is efficient at this stage? Where would you rate implementation?

Mr. MITCHELL. Absolutely.

Ms. CLARKE. That is the critical piece. We can plan from here to eternity, it is how we implement it.

Mr. MITCHELL. And that is a good point. I mean, and part of the challenge here will be once the plan is in place to use the plan is in place to use the scalability models and the exercises to test it.

And, obviously, we have not had the type of events. But I can tell you in all of the disasters since Katrina, implementing some of the

changes that we have made, we are at 98 percent of applications being processed in 14 to 16 days.

Ms. CLARKE. And so this Committee can expect to have a plan in place by June 1st?

Mr. MITCHELL. The commitment of the Administrator is that the Agency will have a plan in place prior to the hurricane season.

Ms. CLARKE. And we should be able to receive that plan?

Mr. MITCHELL. It is an Agency wide plan. And, you know, the Administrator is committed to getting that plan done.

Ms. CLARKE. Thank you very much, Mr. Mitchell.

I yield back the rest of my time, Madam Chair.

Chairwoman VELÁZQUEZ. Ms. Bean, you do not have any questions at this point.

Now I will recognize Mr. Melancon.

Mr. MELANCON. Thank you, Chairwoman Velázquez. And I want to thank you and the Ranking Member for you all to waive the rules to allow me to sit with you today on the dais.

Mr. Mitchell and Mr. Jefferson went into a few of the things. I, too, would like to see that 3° hour process. My last numbers that I understand that has been approved, is what, 38 percent of the loans that have been applied for in Louisiana or in the Gulf Coast. I'm not sure whether it is the Louisiana Gulf Coast have been approved.

What I found about the military during the immediate aftermath of the storms is they are a can do organization. What I find of SBA, it is a cannot do organization.

As you are aware, we had an applicant that was a going business. The problem that they had every time they came in and we tried to appeal, there is a different reason for declination. The final we came in with was there was a program available by SBA that they qualified for, which they needed the more money and this program specifically allowed for more money. But for whatever reason, the department chose not to implement or use this program because it would have set a precedent. What is the precedent? The precedent was set when the storms came in.

So why do you not use the tools that have been given to you to help the people that have suffered this catastrophic events?

Mr. MITCHELL. Well, obviously, I cannot discuss the specifics of the case. And obviously we have talked about this particular case. This was a case of whether or not the business qualified as a major source of employment. And I guess the issue centered around whether or not they qualified based on their projected activity as opposed to where they were predisaster. And that was basically issue.

Mr. MELANCON. Yes. Well, you know, we went through that for the better part of a year and every time we went in there was a different reason why they could not qualify.

Mr. MITCHELL. But I do want to clarify the 3° hour turn around. I was talking specifically about the grant process and not about the processing the loans. In terms of when we get the information from the States of Louisiana, Mississippi in terms of whether or not there is a duplication of benefits, that process is taking about 3° to get done.

Mr. MELANCON. Well, and let me ask you this because I have been told by several people that the SBA offices in the New Orleans metropolitan area that have been open have summarily been closed about every six weeks, the phones disconnected and no forwarding phone numbers or addresses given. Can you explain that to me?

Mr. MITCHELL. That is the first I have heard. I have to look into that whether or not that is the district office or the disaster recovery office, or—

Mr. MELANCON. I would expect disaster recovery because it is in the city area.

Mr. MITCHELL. Both of those are in the same building. But I can check into that.

Mr. MELANCON. I wish you would.

Mr. MITCHELL. Yes.

Mr. MELANCON. Mr. Jefferson touched on some of the things about the SBA paydown. And I agree with him. I think it is absolutely ludicrous. We are trying to help people recover. A loan is a loan and they have got to pay it back. A grant is a grant and that is going to help them get back on their feet. And to tell then they have got to give money back because it is Federal money, all we are doing is sending money from this end of the Government and then sending it back from the other end of the Government. And you are not doing them any good. Government is just getting its money circulated around.

But with the bridge financing, you mentioned that the Administration has concerns over the Section 203 of this bill would create a bridge financing program in SBA. And I am aware that there was one major problem experienced by our business post Katrina. They waited six to eight months for SBA disaster loans, even longer for disbursements. And had to wait ten months for large scale state bridge loan financing.

I understand that the position of the Administration is that state funded bridge loans are state programs financed by Community Development Block Grants funds are the solution. Not having SBA provide immediate short term financing to keep business afloat after a catastrophic disaster.

Why would the SBA oppose being given additional tools that could be used following another catastrophic disaster?

Mr. MITCHELL. Well, I think the issue here is whether or not we would have to basically fund both sides of it, the administrative costs on both the guarantee side and also doing it direct. I mean there is no question that there is a need for direct immediate assistance. The question is, you know, how do we come up with a solution that basically does not increase the cost of the program?

Mr. MELANCON. So SBA is not about helping Americans get back on their feet after a disaster. They are about worrying about the program costs. And, of course, I look at what has happened right now with Dumas, Arkansas. They are not getting much better treatment.

The Administration believes that the States and not the SBA should be the conduit for the bridge loans, is that what you are telling me?

Mr. MITCHELL. Well, I think in looking at this proposal the question is how can we basically come up with a solution that minimized the cost of the program and provide the assistance to the small businesses that they need. This is one of the reasons why the Administrator is so focused on the operational side that we can eliminate some of the problems and delays and provide that assistance through the program and through the process that we have in place.

Mr. MELANCON. Mr. Jefferson touched on, and I will go back and ask, why would the SBA oppose providing more tools to itself to help the people after disasters?

Mr. MITCHELL. I do not think SBA's opposed to having additional tools. I think the focus is how do we come up and identify solutions. I mean we agree that there is a problem that needs to be solved. The question is how do we work through and come up with a solution that balances both sides of it, from a costing standpoint and what the small business actually needs.

Mr. MELANCON. Well, we have been 18 months. We have not come up with a solution, have we?

What I hope to accomplish and with the help of the Members of Congress that have been willing to give us the help is to prevent anybody in any part of this country from having the experience that the people in the Gulf Coast have had with SBA, with FEMA, with all the agencies. And I would plead with you to go back to your agency and implore that they make this operation work for the people and quit giving them the run around. Americans don't deserve that.

Thank you.

I would yield back my time.

Chairwoman VELÁZQUEZ. Thank you.

I have two more questions, if I may.

Mr. Witt, in your testimony you described the SBA disaster loans as being tools in the Federal Government's tool chest assisting disaster victims. Carrying this analogy further, do you believe that the SBA should have a variety of financial assistant tools to meet the diverse needs of disaster victims in the wake of a disaster?

Mr. WITT. Absolutely. You know, the FEMA programs under the Stafford Act are not programs designed to help people for long term. They are designed for short term, 18 months or a little longer to help people to get a roof over their head and their family, temporary housing, individual family grants up to 10,000 or so if they can make their home habitable.

SBA's loans for homeowners and small businesses are an essential process of short long term recovery. I think the grant program is interesting, particularly if it is going to help a small business to recover much faster and make a taxable income back into that community much faster.

Also, let me just share if I may. I was in New Orleans at 9:00 at night meeting with three of the African-American bank presidents at 9:00 at night. These bank presidents were sharing with me, said you know here we are no deposits coming in. Here we are with mortgages on several churches. And how are we going to foreclose on this church when FDIC tells us we are going to have to foreclose on that church?

You know, and Congressman Baker's new legislation and looking at that and talking with her a little bit. But I think it is a novel idea with local banking and local lending institutions being a big part of a disaster, SBA disaster loan program. I really do. Because they know the local business. They know the local homeowner. They do business there. And you know what? It would help put deposits back in that local bank.

Chairwoman VELÁZQUEZ. Do you believe that the bridge loan can play a role in the SBA disaster loan programs?

Mr. WITT. I think it is needed in catastrophic events. I do not think it is needed in every event.

Chairwoman VELÁZQUEZ. Thank you. Thank you.

Mr. Alford, you testified in support of the creation of Association Administrator for Disaster Assistance. And the SBA said that is unnecessary. Based on your experience—

Mr. ALFORD. I think we need to give some proper attention to major disasters. And you need someone who focuses full time on this event. It confuses me that they feel they have no need after Katrina and Rita and Wilma. I think it is almost insane. It is fighting reality.

Chairwoman VELÁZQUEZ. Thank you.

Now we are going to take a break, a recess, and come back. For the second panel we will be back in the next half hour.

And I want to take this opportunity again to thank all of you for taking time to come here, express your views and your assessment as to where we are a month away from the next hurricane season. Thank you very much.

(Whereupon, at 11:33 the Committee recessed to reconvene this same day at 12:09 p.m.)

Chairwoman VELÁZQUEZ. I call the Committee back to order.

And we will continue with this second panel. I want to welcome all the witnesses, and I thank them for taking time to be here with us this morning.

We are going to discuss access to capital legislation, how to modernize and improve some of the small business loan programs under SBA.

PANEL II: MR. MICHAEL HAGER, ASSOCIATE DEPUTY ADMINISTRATOR FOR CAPITAL ACCESS, SMALL BUSINESS ADMINISTRATION; KATHLEEN ROTH, DDS, PRESIDENT, AMERICAN DENTAL ASSOCIATION; JEFFREY RODMAN, CEO OF ACTORS' FEDERAL CREDIT UNION, ON BEHALF OF CREDIT UNION NATIONAL ASSOCIATION; DAVID MAIN, PRESIDENT, HAMILTON COUNTY DEVELOPMENT COMPANY, INC., ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES.

Chairwoman VELÁZQUEZ. Our first witness is Mr. Michael Hager. Mr. Hager is the Associate Deputy Administrator for Capital Access at the United States Small Business Administration. The Office of Capital Access manages the Administration's business loan programs and performs lender oversight functions at the SBA.

STATEMENT OF MR. MICHAEL HAGER, ASSOCIATE DEPUTY ADMINISTRATOR FOR CAPITAL ACCESS, SMALL BUSINESS ADMINISTRATION

Mr. HAGER. Thank you very much. And good afternoon. No longer good morning, but good afternoon, Chairwoman Velázquez, Ranking Member Chabot. He is not here. And distinguished Members of the Committee.

Thank you for inviting me to discuss the legislative proposals that you have indicated that effect business and our lending programs at the SBA.

The SBA has experienced, as you know, significant growth in our programs over the last five years, more than doubling the number of 7(a) and 502 loans funded. The zero subsidy policy that has been adopted for both the 7(a) and the 504 has allowed the Agency to meet the financing demands of small businesses without the need for loan caps or suspension.

Subsidy issues are very significant to the SBA. Zero subsidy has provided stability in the program, which is of the utmost importance to the lenders across the country who participate in our programs and deliver much needed financing to America's entrepreneurs.

We understand that the Committee is considering legislative changes to the SBA programs, particularly relating to taxpayer subsidy, lender participation and application processes and targeted products for veterans and businesses in low income communities. But I want to comment, however, before I specifically talk about these issues, I would like to share a few of the proposals from the SBA.

To lead off with, national preferred lending program, the SBA already has a national program for approval and renewal. But we would like and appreciate statutory authority this activity.

Lender oversight. The ability to charge the community development companies for the cost of reviews. It would provide the SBA with the means to conduct these reviews and to carry out the SBA's responsibilities in this regard.

Enforcement authority for small business lending companies. The SBA proposes language to reinforce the SBA's authority to regulate and examine the SBLCs.

A few other items. Real estate appraisal harmonization, leasing policy harmonization, use of systematic alien verification for entitlement programs. And finally secondary market guarantee fee.

I would like to comment on the proposals recently forwarded to us by the Committee. To begin with, Section 101 fee reductions, the Administration remains opposed to the reintroduction of taxpayer subsidy for the 7(a). Reintroducing subsidy will have the effect of destabilizing the program and risking loan caps and temporary shutdown of the program due to appropriation process delays and shortfalls as we experienced a few years ago.

Further, we believe it would not be consistent with the Federal Credit Reform Act and its requirements of agencies obligate the cost of loan guarantees based on current assumptions.

Section 102 rule lender outreach, we share your commitment to ensuring participation of lenders in rural areas. And we continue to see the number of these loans increase in the market, substan-

tially I might add. However, such a program would need a structure to avoid duplication of existing urban programs that have been developed by the USDA.

Section 103 making Community Express permanent. We support making the program permanent, however, we do oppose the provision requiring that loans under $25,000 have no collateral. We think in the long term this hurt the entrepreneur. Such a blanket policy may actually result in certain borrowers being left out of the program.

Section 104 medical professionals. We believe that the borrower and lender subsidy included in the Committee's legislation would have a significant upward of impact on the subsidy rate.

Section 105 veterans participation. The Administration shares the Committee's desire to make the benefits in the 7(a) program more available to veterans. However, we must point out the proposal will have, again, a significant upward impact on the subsidy due to the elimination of fees as proposed.

Section 106 the alternative size standard recognized the Committee's desire to adopt a simpler method for determining whether a business qualifies as a small business under the Business Act. However, we have concerns about the potential for misapplication to borrowers who are large businesses. The Administration looks forward to working with you to develop a better alternative size policy for our business financing programs.

With regard to the 504 program, the Administration largely supports the provisions that focus 504 as a local economic development program. However, there are few provisions that we would like to express our concerns.

Refinancing—

Chairwoman VELÁZQUEZ. Mr. Hager—

Mr. HAGER. Yes, Madam.

Chairwoman VELÁZQUEZ. You are a regular in this Committee. You know what the red light means.

Mr. HAGER. I failed to look.

Chairwoman VELÁZQUEZ. But how much time? If you could summarize.

Mr. HAGER. One minute.

Chairwoman VELÁZQUEZ. Thank you.

Mr. HAGER. Finally, maximizing eligibility. The Administration must express its opposition to this provision. It would permit loans up to $6 million. We feel that the program that we have in the SBIC debenture program would be a better fit for that.

And finally, Madam Chairwoman, we share the Committee's desire to support small business development and continue the vital contributions that small businesses have made to the economy in the U.S. And on behalf of the SBA Administrator, Steve Preston, we look forward to working with the Committee to ensure that entrepreneurs have access to capital necessary to start, grow and strengthen their businesses.

And I will look forward to your question.

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

Chairwoman VELÁZQUEZ. Thank you.

Mr. HAGER. I'm sorry I went over.

Chairwoman VELÁZQUEZ. Thank you, Mr. Hager.

Our next witness is Ms. Kathleen Roth. Dr. Roth is the President of the American Dental Association, the world's largest and oldest professional association of dentists. The ADA represents over 153,000 members, many of whom are members of the small business community.

Thank you.

STATEMENT OF KATHLEEN ROTH, DDS, PRESIDENT, AMERICAN DENTAL ASSOCIATION

Dr. ROTH. Thank you, Madam Chairwoman and Members of the Committee.

I am the President of the American Dental Association, but I am also a practicing dentist. I have a family practice, a private practice dentist in West Bend, Wisconsin, which is just north of Milwaukee, Wisconsin.

I am pleased to offer the ADA support for your legislation that would establish the medical professionals in the designated shortage areas in Section 7(a) of the Small Business Act.

The ADA represents 72 percent of our dental profession. Our association and all of our members believe that Americans all deserve access to quality oral health services. Unfortunately, than one in every five children that live in underserved populations sees a dentist even once a year.

In Wisconsin we have been expanding our dental students' clinical experiences to include opportunities to provide care not only at Marquette University School of Dentistry, but also in the rural communities of Wisconsin. Sometimes five or six hours north of Milwaukee the students will go off site and they will spend a period of about two weeks living in a hotel while providing comprehensive dental services to community health centers, sometimes privately owned large dental clinics.

We feel very strongly that given the exposure to communities in severe need located in settings that most dentists graduating don't commonly think about as establishing their practices in, will open the possibilities for these new graduates to consider establishing their practices in underserved areas.

We have had some success with the new graduates going to these undeserved areas. And we could be much more successful with some increased financial incentives for establishing their practices in these locations.

There are a number of barriers to increasing access to oral care. But one of the key barriers is the simple fact that the distribution or the location of dentists in some states and some local communities makes it very difficult for patients to seek care.

Your legislation could play a very important role in overcoming that barrier. The overwhelming majority of dentists are small business people who would directly take advantage of the improvements in this Small Business Act. Any enhancements to the loan program could have a positive effect on oral health care access by influencing the locations of those choosing to locate their practices there.

In fact, over 90 of all practicing dentists are private practice sector. And the vast majority of our private practice dentists operate

independently owned, small solo practices or two dental practice offices. We employ on average 4.8 employees by each dentist.

The SBA medical professional and designated shortage program is targeted at just the right people when we are looking to answer yet one more solution for access to care.

In closing, Madam Chair, I would like to make suggestion for change in the legislation, something that we believe would strengthen this proposal. We believe that the bill could have a greater impact if the fees on the loan for the medical professionals under Section 104 were eliminated, just as they have been eliminated for the veterans in Section 105.

We understand that the suggestion would add a little cost to the program, but we believe it is very warranted when are looking to answer some of the access problems and address the financial barriers to dentists who might really be looking to establish their practices in these underserved areas.

So, I want to thank you very much. Thank you Members of the Committee for listening to me and allowing me to testify on behalf of the American Dental Association. And I look forward to your questions.

[The prepared statement of Dr. Roth may be found on page 71 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, Dr. Roth.

And our next witness is Mr. Jeff Rodman. Mr. Rodman is the CEO of Actors' Federal Credit Union, a cooperatively run bank and institution in New York, New York. Mr. Rodman represents the Credit Union National Association, the primary national trade association serving America's credit unions.

Thank you and welcome.

STATEMENT OF JEFFREY RODMAN, CEO OF ACTORS' FEDERAL CREDIT UNION, ON BEHALF OF CREDIT UNION NATIONAL ASSOCIATION

Mr. RODMAN. Thank you.

Good afternoon, Chairwoman Velázquez and Small Business Committee.

Thank you for inviting me to appear to express the support of the Credit Union National Association for the small business access to capital, Act 1332.

CUNA would like to thank Representative Bean, the Chairwoman and the Ranking Member for sponsoring this important legislation.

As stated, I am the President of Actors' Federal Credit Union in New York City. We are located in the heart of New York's theater district. Actors' has over $86 million in assets and serves over 16,000 members in the entertainment community.

Founded in 1962 by members of Actors Equity Association, Actors' serves some 75 different groups involved in theater, dance, music, television, motion pictures as well as behind the scene workers in makeup and hair, studio mechanics, camera, lighting and theatrical wardrobe.

Actors' serves its members with a broad array of financial services, including a small business lending program that responds to the unique needs and circumstances of our diverse membership.

For example, Actors' has made over $2 million in small business loans for financing musical instrument. Madam Chairwoman, although Actor's is an active small business lender, we do not currently participate in SBA's 7(a) program. We have received many inquiries about 7(a) loans from members seeking larger unsecured loans to purchase equipment for a production company or costumes for theater groups. Unfortunately, we have found the process for qualifying as an SBA lender and the requirements for underwriting and servicing individual loans to cumbersome and time consuming to recoup the expensive for the small size or number loans we might make.

Recent increases in both lender and borrower fees only add to our concerns. The 7(a) program could be too expensive for both our credit union and many of our potential borrowers.

Let me begin my formal testimony by commending the Chairwoman for her past leadership in offering amendments to appropriation bills to restore subsidy funding for the 7(a) program. CUNA was pleased to be part of a coalition of 20 business groups advocating for these important amendments.

I would also like to personally thank the Chairwoman for her tireless efforts to push for all credit unions to participate in SBA programs at a time when there were only five credit unions participating. Today there are over 250 thanks to your efforts.

While CUNA has actively supported increasing 7(a), its member credit unions have not been major participants in the program. Currently even with over 250 credit unions, there are still less than 2 percent that offer SBA loans to their members. And several factors have discouraged larger number of credit union from participating as 7(a) lenders.

The Credit Union Membership Access Act of 1998 capped the amount of business loans any credit union can make at 12.25 percent of total credit union assets. The cap has discouraged many credit unions from initiating business lending programs, including ours, and limited the program of qualified credit union lenders able to participate in the 7(a) program.

Another factor which I have already mentioned is the burdensome paperwork of the 7(a) program, which added to the cost of hiring experienced lending staff or consultants make it almost prohibitive for smaller credit unions to even consider starting a 7(a) program.

The move to a zero subsidy for the 7(a) program in 2005 has created further disincentives by forcing borrowers to pay substantially higher fees. As Chairwoman Velázquez noted last year, this has meant additional fees for smaller to mid sized loans ranging from $1500 to $3000.

How can Congress address these problems and make the 7(a) more affordable and accessible for both small business borrowers and small lenders? I have four points to make.

First, CUNA strongly supports initiatives that will permit SBA to reduce borrower and lender fees for the 7(a) to the greatest extent possible. We urge this Committee and also the Appropriations Committee to approve the possible fiscal year 2008 funding levels for the 7(a) program.

Second, CUNA urges support for provision in HR 1432 to restore and expand the 7(a) low documentation program, otherwise known as Low-Doc. Low-Doc made the 7(a) process more cost efficient for lenders to make smaller loans, and also to make smaller numbers of loans.

Third, we support permanent authorization and expansion of the Community Express Loan Program which targets 7(a) loans to lower income communities and to minorities, veterans and other under represented groups.

Given the historic mission of credit unions to meet the credit needs of all individual groups not adequately served by other financial institutions, the Community Express Program is a logical vehicle for increasing credit union participation in 7(a).

Fourth, CUNA urges the Committee to consider other innovative programs to streamline 7(a) loan document of processing for credit unions and other small lenders. A possible approach might be creating a new prequalification program specifically targeted to small lenders rather than specific borrowers that would permit local technical assistant intermediaries to prequalify potential borrowers, match them with qualified local lenders and expedite final loan processing.

In closing, I want to thank the Committee for this opportunity to discuss some of the recommendations included in my written testimony, and welcome the opportunity to answer further additional questions.

Thank you.

[The prepared statement of Mr. Rodman may be found on page 78 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you.

We are going to recess for like two or three minutes. We are just waiting for the Ranking Minority to come. He is like two minutes away.

(Whereupon, at 12:27 p.m. a recess until 12:29 p.m.)

Chairwoman VELÁZQUEZ. Calling back to order.

And I'll recognize, Mr. Chabot, for the introduction of his witness.

Mr. CHABOT. Thank you, Madam Chair.

I would like to introduce someone from my District, David K. Main. He is the President and CEO of Horizon Certified Development Company, HCDC, which started back in 1983.

While the SBA 504 program is HCDC's flagship of economic development lending activity, HCDC also administers the Ohio Regional 166 Loan Program, Community Reinvestment Fund USA Program, the Hamilton County Economic Development Office and the Hamilton Business Center, a 70,000 square foot business incubator.

Prior to joining HCDC Mr. Main served as a loan officer, staff attorney for Citywide Development Corporation in Dayton, Ohio, legal advisor for the Department of Community Development in Rockford, Illinois and commenced his economic small business development career as the first economic coordinator of the city of Xenia, Ohio.

Mr. Main holds a juris doctorate, a doctor of Juris prudence and a bachelor of arts degree from a very fine institution, the University of Cincinnati.

And we welcome him here this afternoon.

Thank you, Madam Chair.

STATEMENT OF DAVID MAIN, PRESIDENT, HAMILTON COUNTY DEVELOPMENT COMPANY, INC., ON BEHALF OF NATIONAL ASSOCIATION OF DEVELOPMENT COMPANIES.

Mr. MAIN. Thank you, Congressman.

I am here today to represent NADCO as a Board member and the more than 260 certified development companies across our country that provide financing to small businesses under the SBA 504 loan guarantee program.

I would like to thank Chairwoman Velázquez, Ranking Minority Member Chabot and the entire Committee for giving me the opportunity to provide remarks on this important legislation, and for your continued support of the SBA 504 loan program and the CDC industry.

The 504 loan program represents a unique public/private partnership which includes private lenders, and in our case recently credit unions, the U.S. Small Business Administration and more than 260 CDCs which provide much needed financing for small businesses for their expansion and growth.

For over 25 years this national network of CDCs has worked with private lenders, the SBA and the small business concerns in structuring projects and approving loans on behalf of over 94,000 small businesses.

During the first year of the SBA 504 loan program in 1986, the CDC industry approved merely 487 loans, totaling over $115 million, which leveraged a total of $287 million in new business investment. However, during the most recent fiscal year in September 30 of 2006, just under 10,000 businesses received SBA 504 financing, totally over $5.9 billion, which leveraged over $14 billion in new small business investment.

I joined HCDC in 1983 as its first Executive Director and President when the predecessor to the 504 program, the 503 program was acted. Since then HCDC has approved over 828 SBA 504/504 loans totaling over $214 million, which has leveraged over a half billion dollars in small business investments.

You may recognize some of the companies that HCDC has funded with 504 loans, including AE Door and Window in Forest Park, Exercise and Leisure in Columbia Township, LaRosa's Pizzeria on Boudinot and Hanky Winery over in Westwood.

The legislation that the Committee has drafted for the first time in the history of the 504 program would define in statute the specific legislation framework as to how the 504 should be best structured and how the 504 program can best operate. The impact of this bill will be historic, and we look forward to offering comments on the following dramatic impacts of the legislation.

First, for the first time the economic development mission and the value that CDCs bring to small business, the SBA into the community we serve would be defined in statute. This legislation recognizes that CDCs do more than merely process 504 loans. In

essence, they marshal resources to help small businesses expand and to implement community economic development.

Second, the legislation also recognizes that CDCs should be locally based economic development organizations that are connected to the communities they serve. It is also critically important to the CDC industry that the legislation impose high ethical standards that would prohibit one individual or his immediate family or her family with affiliates from controlling multiple CDCs, and we hope to continue in our work with your Committee on this important issue.

Third, this bill also provides an opportunity to allow the 504 program to do more for companies located in lower income communities, which are disproportionately located in urban core areas and rural areas of our country. We hope to continue our work with the Committee in devising the best ways to make this happen.

Fourth, although historically the SBA program has experienced a very low default rate, the bill recognizes that all CDCs should be required to either directly liquidate or contract with third parties liquidate defaulted loans in view of the decreased liquidation staff within the SBA. We heartily support that. However, we vehemently oppose charging CDCs for oversight fees with audits similar to what is being proposed and is being charged for banks and for regular 7(a) lenders. We are nonprofits, we support economic development and our fee structure is such that we cannot support the imposition of such oversight fees for outside audits and that.

We also feel that refinancing could be a valuable addition to the 504 program where we might have a more effective financing structure for small businesses and their expansion.

Finally, we applaud you in this proposed historic legislation that will set the course for the future and clearly define the purpose and role of the CDC industry as a not for profit financial intermediaries that deliver small business programs and services in the best way possible for these businesses and for the economic development of their communities.

We look forward to continue to work with the Committee on enactment of this bill. Thank you for your support.

And I would be pleased to answer any questions regarding CDC or the 504 loan program.

[The prepared statement of Mr. Main may be found on page 83 of the Appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr.Main.

Mr. Hager, I want to address my first question to you. In your testimony you suggest that Section 101 of the Small Business Lending Improvements Act violates principle of credit reform. Mr. Hager, the Clerk is handing you a copy of the Credit Reform Act. Could you please point to the provision that says that the SBA can only make performance estimates on an annual basis?

Mr. HAGER. We believe, and historically we have always—

Chairwoman VELÁZQUEZ. No. I am asking if you could point to the statute that you have in front you. You make reference to it. But I could save you time. Mr. Hager.

Mr. HAGER. Yes, Madam.

Chairwoman VELÁZQUEZ. You will find a provision in 2 USC 661 that conflicts with this bill. In fact, nothing in the Act will preclude the SBA from making the contributions specified in this legislation.

Mr. JEFFERSON. Yes, Madam. We believe, and I will be glad to get back to you with my assertion. We still believe there is a conflict here.

Chairwoman VELÁZQUEZ. Mr. Hager, I am telling you there is not such conflict.

Mr. HAGER. And I will—

Chairwoman VELÁZQUEZ. Not only I will save you time, I will save you an embarrassment if you start looking line-by-line because you are not going to find in any lines of the statute that it specifically prohibit.

Mr. HAGER. I—

Chairwoman VELÁZQUEZ. Let us go to the next question. But if you do in your office, send it to us.

Mr. HAGER. I would like to do that.

Chairwoman VELÁZQUEZ. Mr. Hager, in your testimony you suggest that the proposal to make the Community Express Program permanent may have constitutional ramifications. Would you please tell me and tell this Committee which court opinion you based your comments on?

Mr. HAGER. The original Community Express Program was set up to favor certain communities. We believe that bias would be unconstitutional.

We are making recommendations to pull that particular feature out for the future to where it is within the Constitution.

Chairwoman VELÁZQUEZ. Well, you raised the constitutionality ramifications of this—

Mr. HAGER. Yes, Madam.

Chairwoman VELÁZQUEZ. Of the Community Express Program. You know that there is no court decision has ever considered the constitutionality of this program, has it?

Mr. HAGER. None has been rendered at this point.

Chairwoman VELÁZQUEZ. Okay.

Mr. HAGER. But my point is the way it was originally structured we believe presented constitutional issue.

Chairwoman VELÁZQUEZ. As I recall Mr. Hager, the Supreme Court has considered and upheld the constitutionality of SBA programs that help minorities. The 8(a) program. Does the SBA have any constitutionality concerns with the 8(a) program? Do you have?

Mr. HAGER. I do not know any concern about the 8(a) program.

Chairwoman VELÁZQUEZ. Well, you know what? I find it quite convenient for the SBA to raise constitutionality concerns whenever it suits your policy positions.

Mr. HAGER. Yes, Madam. I have raised this issue on one platform. And again, I believe going forward we will have no exposure.

Chairwoman VELÁZQUEZ. Mr. Hager, in your testimony you state that the medical professionals and veterans loan programs violate Federal credit policy because the loan guarantee percentages exceed 80 percent. Where in Federal law is this requirement?

Mr. HAGER. I will specifically point out the reference that I made in my testimony, and I will present that to you.

Chairwoman VELÁZQUEZ. There is nothing in Federal law. In fact, it is or it might be an Administration policy?

Mr. HAGER. I would be happy to clarify that issue.

Chairwoman VELÁZQUEZ. Now I recognize Mr. Chabot?

Mr. CHABOT. Thank you, Madam Chair.

Mr. Main, let me start with you, if I can.

Do you have any comments on anything that should be included in your opinion in the legislation that may not have not been? Are there any changes that you would suggest in improving the bill? Anything along those lines.

Mr. MAIN. In my 25, really 30 years with the 504 program, this is probably the best piece of legislation as far as the program and improvements in the industry that I have seen. And my feelings are there may be some details that need to be worked out, that we need to work out with the Committee. But this is one of the finest pieces of legislation dealing with the 504 program.

Mr. CHABOT. Okay. Thank you. You mentioned some programs that and projects that you were involved in in Cincinnati. What are you proudest of relative to what you have been able to deal with at the various levels that you have been involved in this area back in our community?

Mr. MAIN. There is probably three things. The first one is the SBA 504 program, because that is where we got our start and that has been our hub and our focus. It is an economic development program, but that enabled us to: (1) Set a culture where we are looking to deal with real businesses, real people, real money where we have to make loans, we have to approve, we have to fund, we have to close and we have to have loans repaid. And it has happened. And that set the culture.

The second thing was probably our Hamilton County Business Center, the business incubator, which is the largest incubator in the State of Ohio and probably in the midwest with nearly 50 companies. We had over 200 that have gone through the program. Some of our graduates have taken advantage of SBA 504 loans. There is a wide array of tech-based business, minority businesses. Just a wide number of them.

And I guess the third area would be the Economic Development Office and able to work with our local communities in order to bring in new investment and put together a number of economic development tools, be it loans from the SBA, loans from the State, maybe some other Federal types of support in order to make projects happen that otherwise because of the purse marketplace would not happen.

Mr. CHABOT. Okay. Thank you very much.

Mr. Rodman, if I could turn to you next. How much of the loan documentation associated with the 7(a) loan is necessitated by SBA regulation and how much is required because those loans are sold in the secondary market and required by purchasers of the loans.

Mr. RODMAN. You probably missed my testimony, but I am not a 7(a) lender now. So I can't speak to really critically specifically on those issues. But I know CUNA will get back to you on that.

But I will say it was one of the things that has been deterrent for us to get into the program because when we talk to other credit union lenders who are in the SBA program, they have made it

clear to us that we would have sufficiently a staff that would be able to handle this type of information.

Under an SBA guarantee my understanding is that if the loan goes bad, that is only when you find out if the guarantee works or not. In other words, you do not get the prequalification prior to it. It is when the loan goes bad, then they look at the documentation and say well, you know what you did not dot that I and you did not cross that T and we are not paying on this one. So you are going to take the whole bill on this.

Therefore, for us to get into the program, look at us for example. We are credit union with 30 employees. If I want to add one SBA lender who has the sufficient technical expertise, I am going to have to pay something like $60,000/$70,000. Now in my culture that is probably going to add about close to almost 10 percent of my salary increase. Now I am looking at increasing my salaries of my HR budget by 10 percent. And I have to do that in order to protect myself on the back end on this loan. Because if I do not have somebody that knows exactly where the Ts are to cross and where the dots are to dot, it is like I am going to be trouble if that loan goes bad on me.

And then in addition to that, the other thing is working against the 12.25 percent asset cap that is mandated by the Credit Union Membership Access Act of 1998. I have got about $9 million in loans right now out in business loan. I have got a cap of about $11 million. Now that means I got $2 million in there that I can lend to.

Now I am going to hire somebody for $70,000 that I can only put $2 million into. It stops making sense for me.

See, these are where the problems come in.

I know that Chairwoman Velázquez is talking about is taking that nonguaranteed portion so I can go over my cap and not have it applied to my cap. If that were to happen, that would make a whole new Belgium just there. That would be a great new Belgium. Because then I would say, okay, I can make as much SBA lending as I want to. It does not fit into my cap anymore. Okay. Now we are starting to talk in a place where I can really get the business here.

Mr. CHABOT. Thank you.

Chair, I am not sure if I have any time or not. I do not want to oppose on —

Chairwoman VELÁZQUEZ. You have time.

Mr. CHABOT. Okay. Dr. Roth, given the amount of dental school debt and the average salary nowadays for a dentist, would the program set forth in Section 104 be sufficient incentive to entice a dentist to establish a practice in an underserved area in your opinion?

Dr. ROTH. Well, certainly alone, no. But it is one more tool that would make a dental student who is graduating look at an underserved area very seriously.

You know, they do have a lot of debt. A dental student might be getting out $200,000 in debt. And to look at establishing a practice in an underserved area where your basic patient base will be Medicaid or Government funded programs, there is a lot of risk there for a new dentist to create their lifestyle and live with their prac-

tice there. But I see this program as offering one more piece to that opportunity that could really make a difference there.

Dentists and dental students do want to go home and practice a lot of times where they grew up. And if we can give someone the incentives and the financial viability to make that a strong possibility, I think it will make a difference.

Mr. CHABOT. Thank you very much.

And finally, Mr. Hager, and if you have already comment on this I apologize, but could you comment on how much overlap there is between the Community Express loans and the micro loans?

Mr. HAGER. There is significant overlap. I have got some materials that—and if I cannot pull it out instantly, I will send it to you. But essentially between the Community Express program, SBX Express Program, if you look at Low-Doc 5/6 years ago and look at the loan volume, carry it forward to today, which dropped to zero, you will see an incredible increase in Community Express loans where the volume has increased substantially. And the same thing in Community Express.

So we believe the Low-Doc was completely consumed by certainly the combination of Community and Express, and largely by the Community Express because of the features of the programs match very closely.

Mr. CHABOT. Thank you very much. I yield back, Madam Chair.

Chairwoman VELÁZQUEZ. Thank you.

Dr. Roth, can you comment on why conventional 7(a) loans are inadequate to encourage medical professionals to open offices in underserved areas? Are lenders simply reluctant to make these loans due to increased risk or are your members discouraged from taking these loans because of the cost?

Dr. ROTH. In my opinion I do not take they are discouraged from taking the loans because of the cost. I think there is not a significant difference in a commercial loan that is available to a new graduate. They have to have a very clear reason to take the small business loan and to practice in an underserved area.

Dentists, quite honestly, are really not a bad risk in the financial world. They are a very low risk for paying back those loans and creating a solid dental practice. But when you do that in an underserved area, the reimbursements for their practice base are so low it makes it a very tenuous line to walk for a profitable business and a touch and go.

So I see this as a significant additional piece that would really influence someone to that tipping point where, yes, I can make my practice work in that inner city of Milwaukee or downtown Chicago where the need is clearly there, and we want to address the access issue for all patients. But it still has to be a solid economic model for a small business to provide and continue their life there.

Chairwoman VELÁZQUEZ. Thank you, Dr. Roth.

Mr. Rodman, this legislation will enable the SBA to reduce the fee burdens on small businesses and lenders in the 7(a) program and will do so without disturbing the stability created under the current zero subsidy rate. How will this approach benefit credit unions?

Mr. RODMAN. Well, I think it would be highly beneficial. I mean, in our relationship with our borrowers, with our members, every

dollar counts, every fee and dollar counts when it comes into lending. I mean when we are talking about lending, we are talking about, you know, we are talking about $50,000, $60,000, $70,000. If you are talking a $100,000, if you get into the 3 percent range or something like that, you are all of sudden, you are starting to talk about 3 percent of the loan.

So these costs are actually significant. They are significant carrying forward as that member moves into their business and starts working with their business. I mean these are not small—you know, I mean up here I know they look like small dollars. But when you are going out and buying inventory or whatever you are doing, these are significant dollars.

Chairwoman VELÁZQUEZ. The Small Business Lending Improvement Act will establish a rural lender average program to increase lender participation in the 7(a) program, particularly among small banks and community lenders by reducing application burdens for borrowers and lenders and streamlining the lending process. Would this program also encourage more credit unions to participate in the program.

Mr. RODMAN. Absolutely. Anything that can reduce the paperwork trial will help a great deal. Again, going back to a credit union our size, which we are relatively typical, you know 86 million, we are about in the middle where everybody stands. When I look at myself and I look at the jobs that are taking place of people on the ground, we work full tilt all day long. I come along and I have so many new things that have to be together. I have to keep with the debit card program and add rewards to my debit card program, et cetera. And then you come and you bring an SBA program in and you say, okay, and here is the SBA program. And all of a sudden you look at it, and it is blindingly big and you go like let me put that one off until tomorrow. And that is what happens.

And then we start looking at—and I have talked to people about the lending process for one or two loans and the difficulties they have to go through. And I think like I have got a loan officer that has to get mortgages out, has to get home equities out, have to get credit cards out, has to get car loans out, has to get personal loans, has to get secured loans and they have to do deal with all those loans. And I say now I am going to take their energies and try to cram that much more time, I got to a new person, et cetera.

So, yes, streamlining this would make an incredible difference.

Chairwoman VELÁZQUEZ. Thank you.

Mr. Chabot, you have any other questions?

Mr. CHABOT. Madam Chair, if I could just ask one question.

Chairwoman VELÁZQUEZ. Sure.

Mr. CHABOT. On behalf of one of our colleagues who was here earlier but had to go to another meeting and wanted to ask this question.

Mr. Hager, it would be addressed to you. If I own a franchise and cannot get the franchisor to pay my debts, would it be fair to say that most people would assume the franchisee and franchisor are independent?

Mr. HAGER. I would like to get back with you with a statement. And I will consult with our legal department and get you an answer to that.

Mr. CHABOT. That is fine.

Mr. HAGER. If that is okay?

Mr. CHABOT. That is fine. Thank you very much.

Chairwoman VELÁZQUEZ. Okay. Well, with this concludes this hearing.

I want to thank you again for being here for answering our questions.

And the Chair would like to ask unanimous consent to enter into the record opening statements of Members that are not present at this moment.

And with that, we are adjourned.

[Whereupon, at 12:53 p.m. the Committee adjourned.]

NYDIA M. VELAZQUEZ, NEW YORK
CHAIRWOMAN

STEVE CHABOT, OHIO

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

STATEMENT
of the
Honorable Nydia M. Velázquez, Chair
House Committee on Small Business
Legislative Hearing on Disaster and Access to Capital
March 8, 2007

I am pleased to call this hearing to order.

First, I want to thank each of you for being here today.

This morning's hearing will discuss two very important but different roles the Small Business Administration (SBA) plays—access to capital and disaster assistance. This committee has held two hearings on these topics, and today we will review legislation that attempts to address many of the issues brought up during those discussions.

The disaster loan program was created for the purpose of providing financial assistance to entrepreneurs. However, as most of you recall, Hurricane Katrina tested this initiative and uncovered many problems. After the storm, the affected small businesses were bogged down with paperwork and substantial delays in receiving much needed aid. There is no question that this can never happen again—or that our small businesses deserve better.

For the SBA to adequately assist entrepreneurs they must have a disaster plan in place. Processes need to be streamlined and tools should be available to provide relief in a faster, more efficient manner. We also need to move away from the current one size fits all approach and broaden the types of aid for small businesses. This includes using vehicles such as bridge loans and grants to respond to the diverse needs of these firms. The disaster relief legislation being reviewed today, the RECOVER Act of 2007, does just that.

Clearly, small businesses do not just need capital following a disaster, they need it each and every day to start and expand their ventures. The SBA's loan programs, while valuable, could be doing so much more.

They were first developed to provide long-term financing. For these initiatives to live up to their original intent, we need to make them more affordable and accessible for small businesses owners.

The Small Business Lending Improvements Act of 2007, introduced by Ms. Bean and Mr. Chabot, will reduce the financial and regulatory burden placed on small businesses. Most importantly, it will make loans more economical while providing long term stability.

H.R. 1332 will accomplish a number of important public policy goals. This legislation provides incentives for medical professionals to locate to low income areas and establishes a rural lender program to attract small lenders back into the program. Also, veterans returning from Iraq and Afghanistan will be able to secure funds to start or expand their firms should they chose to do so. After all they have done for our country, this is the least we can do for them.

This bill touches all aspects of the SBA's lending initiatives, including 504. One thing about this program that has always stood out is the tie between local CDC's and the community. The Small Business Lending Improvements Act of 2007 strengthens these ties by making much needed, and long-overdue, changes. It also keeps the initiative affordable by enabling CDC's to improve the liquidation process, allowing fees to remain reasonable.

Today's hearing will provide members with an opportunity to provide input and fine tune these proposals in preparation for next week's mark-up.

This country's 26 million small businesses must have the ability to secure affordable capital in order to continue spurring economic development and job creation. It is not only important that they are able to start their businesses, but if affected by a disaster such as Katrina, entrepreneurs must be able to receive reliable and efficient aid. I believe the legislation being reviewed today strengthens both the disaster and access to capital programs, giving small businesses the tools they need to be competitive and successful.

I look forward to hearing the witnesses' testimony.

Thank you.

Opening Statement
Ranking Member Steve Chabot
Full Committee Hearing on Disaster Relief and Access to Capital Legislation

House Small Business Committee March 8, 2007

I would like to thank Chairwoman Velazquez for holding this hearing in which we'll review access to capital and disaster relief legislation. I also want to thank our witnesses for taking the time to share their thoughts and experiences regarding these important issues. I especially want to thank David Main -- a constituent from my district and the President of the Horizon Certified Development Company -- for making the trip from Cincinnati to be with us today.

Already this Congress, this committee has held hearings on the SBA's response to the Gulf Coast Hurricanes as well as the SBA's primary loan programs: the 7(a) and the 504. During these hearings, the committee has had the opportunity to hear the experiences of a cross-section of witnesses who use and participate in these programs.

After hearing these personal stories it became apparent that some adjustments need to be made to make these programs better. For instance, I strongly believe we need to evaluate ways to expand the 7(a) and 504 loan programs to provide opportunities to small business owners in rural area and urban areas.
However, I believe this should be accomplished without reverting back to the days when the viability of these important lending programs was dependent on receiving appropriations.

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 7(a) loans for veterans should reflect their selfless contribution to defending our nation.

Also of great interest to me – and I'm sure every member of this committee -- is rethinking the procedures used by the SBA to respond to a future national disaster – one that may or may not be similar to Hurricane Katrina's devastation. 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 need help from the SBA disaster loan program in the future.

The legislation we will discuss today is critically important for existing small businesses, Americans who dream of starting their own business, and those who may have the misfortune of having to pick up the pieces following a national disaster.

I look forward to listening to today's testimony and working with Chairwoman Velazquez in finding ways to improve these important loan programs.

Statement of Rep. Jason Altmire
Committee on Small Business Hearing: "Disaster Relief and Access to Capital Legislation"
March 8, 2007

Thank you, Madam Chair, for holding this hearing today on two important pieces of legislation, the Small Business Lending Improvements Act and the RECOVER Act. These bills will give the Small Business Administration the ability to better perform its mission of helping small businesses grow, prosper, and in the event of emergency, recover.

I thank the distinguished witnesses for being here to testify today. I look forward to hearing from all of you on what SBA can do to better serve its small business constituency.

The natural disasters that hit the Gulf Coast in 2005 were compounded by the federal government's fundamental failure to adequately prepare, plan, and respond. While we are powerless to prevent natural disasters, it is morally incumbent upon us to do all we can to mitigate their effects as best we can and reduce the human suffering that they bring. Government must anticipate and plan for the worst. Chairwoman Velazquez's bill, the RECOVER Act, will go a long way towards ensuring that future disasters are better handled than Hurricanes Katrina, Rita, and Wilma.

The other legislation we are considering today, the Small Business Lending Improvements Act, will allow SBA to better serve small businesses by improving their access to much-needed capital. I am pleased by the bill's commitment to veteran entrepreneurs. One of the unfortunate byproducts of the War on Terror has been its effect on untold numbers of small businesses that are impacted when owners are called into active duty. Tragically, these businesses often are unable to survive. Returning veterans deserve all the capital assistance we can give, and I am happy to see legislation that begins to address this issue.

Thank you, Madam Chair. I yield back the balance of my time.

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HOUSE SMALL BUSINESS COMMITTEE

HEARING REGARDING

DISASTER LEGISLATION

MARCH 8, 2007

Testimony of

Associate Administrator Herb Mitchell

Good Morning Chairwoman Velazquez, Ranking Member Chabot and distinguished members of the Committee. Thank you for inviting me to discuss legislative proposals affecting SBA's Disaster Assistance Program, and victims of Hurricanes Katrina, Rita and Wilma, as well as what more can be done to better serve disaster victims in the future. My name is Herb Mitchell, and I am the Associate Administrator for the Office of Disaster Assistance at the US Small Business Administration.

After Katrina hit, the Agency processed over 420,000 loan applications, and addressed the unprecedented nature of this disaster by expanding capacity in three areas: information systems, people and facilities.

Under Administrator Preston's leadership we are well on our way to fixing the problems experienced by disaster victims following Hurricane Katrina. We have dug into the issues to understand why these things happened, and what we can do to prevent them from occurring in future disasters. First, we listened to our customers. Next, we listened to our employees to get their perspective. Then we dug into the operational processes where we found a number of issues leading to high error rates, steep backlogs in critical processes and decision-making bottlenecks. With this information, we began to re-engineer the program to address them.

As a pilot, we also moved 1,300 staff and changed our entire work flow, from a production line with inadequate coordination and communication between 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 process and outreach to our borrowers enabled us to build a data base to track the issues our customers have and to address them better.

The Agency is seeing the benefit of this new process in more recent disasters where 98 percent of our loan applications are being completed within 14 to 16 days.

Do we still have hurdles? Yes. However, the feedback the Agency is getting from legislators, local leaders, employees and most importantly, the disaster victims we

are striving to help, is very positive. We continue to focus on enhanced training for ODA employees so they can better serve our customers. We continue to improve our IT infrastructure, as well as update, expand our phone systems and improve our planning process. We have put metrics and mechanisms in place to identify issues and address them as they arise. But most importantly, we have methods in place for greater interaction with our customers.

In the coming months, our efforts are focused on a number of activities:

1. Ensuring we are responsive in providing the states with information to support their Community Development Block Grant funded programs. We have weekly conference calls with the Mississippi Development Authority and the Louisiana Recovery Authority to make certain they are getting all the information they need from us and visa-versa to ensure delivery of needed aid.

2. Completing the process reengineering and continuing to improve automation to ensure that it is fully in place for future disasters. This includes developing an online application for future disaster victims. We strongly believe that the more we can automate the intake of all the necessary documentation, the more efficiently and accurately we can process loans and get the much needed money to rebuild into the hands of disaster victims sooner.

3. Finalizing detailed surge plans, so that we have clear, well-documented road maps and implementation models in place, based on the size and nature of the catastrophe. The Deputy Administrator is spearheading this undertaking, and we hope to have the opportunity to present our plan to the Committee in the near future.

And:

4. Exploring ways to work with the private sector to provide more efficient and effective support in certain circumstances.

Additionally, we hope through the legislative avenues of this Committee, we can reach out to other disaster victims that the SBA currently is unable to assist. By granting SBA authority to provide economic injury disaster assistance loans to non-profit entities, the Agency would be able to help groups and organizations whose main focus is to help others.

I would also like to provide the Committee with some comments related to the draft legislation under consideration by the Committee. The Administration has no significant objections to Title I of the draft bill. However, the Administration does believe that the creation of an Associate Administrator for Disaster Planning is unnecessary. As mentioned above, SBA's Deputy Administrator is overseeing this and her leadership is adequate to ensure completion of the proposed improvements along with oversight of future efforts. Also, limiting the Reserve Corps staff to no more than 30

percent in any one region may adversely impact our recruiting efforts and unnecessarily increase the cost of the program.

The Administration does have serious reservations with the second Title of the bill as it relates to the lending aspects of our program.

Section 203 would create a bridge-financing program, for loan guarantees up to $10,000 for businesses affected by a disaster, to be repaid with the proceeds of any regular disaster assistance loan subsequently made. This provision would likely increase costs to both the borrower and Federal Government. Borrowers would likely pay higher fees and interest rates on the short term financing, and the Federal Government would have to pay administrative costs for two programs to deliver the same assistance for short-term loans later refinanced through the regular disaster loan program. The Government would also incur additional risk as some borrowers might take out guaranteed loans that are not later refinanced through 7(b) loans. Moreover, this provision is counter to Federal Credit Policy, which requires that lenders of Federally guaranteed loans assume at least 20% of the risk.

Section 204 providing for a non-interest bearing deferment period of up to 4 years would require a massive subsidy in order to cover the interest subsidy costs during this period. SBA already has the ability to defer repayment, although interest does accrue. Generally, the first payment is deferred from 5 to 24 months depending on the extent of the disaster. Additionally, borrowers may request an extended disbursement period beyond the 24 months based on their individual circumstances. Our experience is that the 5 to 24 month deferment period is sufficient for the vast majority of our borrowers, and a very reasonable benefit in light of taxpayer costs.

Section 205 - the Administration already has flexibility for adjusting repayment terms, and as I stated above, can offer deferments of up to 2 years. If a borrower needs an additional deferment because disbursement has been delayed, SBA is already able to offer assistance. Mandating that SBA use specific deferment periods for each disbursement will unnecessarily increase the cost of the program.

The administration has similar concerns regarding section 206 and revising the disbursement process. SBA currently offers borrowers an initial disbursement of $10,000 with further disbursements based on receipt of collateral and progress with the rebuilding effort. This works in the same fashion as a commercial construction loan. SBA has concerns that making disbursements without regard to the amount of funds actually needed or the progress of the project may increase the risk of misuse of funds or the potential for cost overruns that may result in projects mot being completed or borrowers having to borrow more funds. This provision may have the unintended affect of eliminating full disbursements when warranted. While we would certainly like to ensure disaster victims receive their loans in a timely basis, we feel the way section 206 is written requiring disbursements to be done in three stages is not prudent.

Section 207 – The Administration would appreciate further information regarding this provision. As we understand it, the intent is to allow business loans under $100,000 to be made without allowing SBA to use the borrower's personal home as collateral, if available. SBA generally uses the best available collateral in any lending situation. This prohibition would limit collateral and, of course, increase losses and affect the subsidy cost of the program.

Section 208. SBA believes there is a role for the private sector in assisting SBA in processing disaster loans in times of major or catastrophic disasters. We have reached out to the private sector by way of a Request for Proposals and we received no bids from the financial services community. However, we are continuing our efforts to work with the banking community in an effort to find a beneficial proposal. SBA would suggest that this provision be amended by removing paragraph (b). We are concerned that mandating the use of the private sector in specific situations would limit our flexibility and that waiting until a 30 day backlog arose would create problems for borrowers. The Administration would prefer language allowing the Administrator to use these services at his discretion.

The Administration must strenuously oppose section 210 requiring the Agency to provide grants to small businesses. This is duplicative of existing programs within the federal government. In fact, the State of Louisiana is currently providing grants to small businesses through HUD's CDBG funding. Under this provision SBA would be establishing a new program to duplicate assistance already being provided.

The Administration also strongly objects to Section 211. If a disaster victim receives an insurance payout or a grant to assist in rebuilding a damaged property for which a disaster loan was provided, the Agency has an obligation to the taxpayer to ensure that federal assistance is equal to the amount of losses, not placing the borrower in an improved position. Under this provision a disaster victim could receive as much as twice the amount of federal assistance for the same loss, requiring taxpayers to pay for the same damage twice.

In regard to the increase in the maximum loan amount in section 212 the Agency feels this is not necessary. Our data shows that only roughly 600 loan applications exceeded the $1.5 million dollar threshold in their damage assessments, and many of those were not-for-profit institutions or businesses that qualified as major sources of employment. The Administration is also worried that increasing the subsidized loan amount will lesson the incentive for those businesses from acquiring sufficient insurance to cover their losses, the Administration is also concerned that prohibiting net earnings Clauses could result in a higher subsidy cost for the program.

Section 213 – the Administration understands the need to allow businesses to recover from disasters, and our lending is based on that premise. However, SBA also believes that once a business has recovered it should repay the SBA as expeditiously as possible and minimize taxpayer funded subsidies, and that increasing the loan limit to

riskier borrowers to a level higher than that which applies under the 7(a) program may not be prudent.

Chairwoman Velazquez while we certainly have some concerns with the legislation in its current form, we hope to work closely with the committee members and your staff to ensure that future disaster victims are well served by the Office of Disaster Assistance at the SBA.

Thank you again for inviting me today, and I look forward to your questions.

Statement of James L. Witt, CEO, James Lee Witt Associates, a part of Global Options Group Inc. &
Former Director of the Federal Emergency Management Agency (FEMA)

Before the Small Business Committee
United States House of Representatives

March 8, 2007

Hearing on Disaster Relief and Access to Capital Legislation

Rayburn House Office Building, Room 2360
March 8, 2007
10 a.m.

Statement of James L. Witt, CEO, James Lee Witt Associates, a part of Global Options Group Inc. &
Former Director of the Federal Emergency Management Agency (FEMA)

Chairman Velazquez and distinguished members of the committee, thank you for inviting me to participate in today's hearing. I appreciate the opportunity to come before you to share my thoughts about the Committee's proposed reforms to the Small Business Administration's (SBA) disaster recovery programs currently under consideration. My testimony has been shaped by my perspective of working on these issues in both the public and the private sector and at all levels of government – Federal, State, and local government.

The Small Business Administration's essential role in Disaster Recovery

During my tenure as Director of the Federal Emergency Management Agency (FEMA), I viewed our Federal partners at SBA as critical to our efforts for helping communities recover following a major disaster. SBA's disaster loan programs for individuals generally provided greater financial resources for an individual or family looking to rebuild or repair their home than was available through FEMA grant programs. SBA's loans to small business owners were essential for making sure that disaster-impacted communities were able to retain the small businesses that employed their residents; that provided vital goods and services; and that sustained the tax base for municipal government.

Additionally, SBA was frequently able offer its disaster loan assistance to communities that experienced disasters which did not meet FEMA's criteria for a major disaster declaration. These were disasters where there were significant losses, but where the state and local resources were not so overwhelmed as to warrant a major disaster declaration. While I oversaw more than 350 disasters during my years as FEMA Director, SBA was involved with a good number more than that. SBA not only supported the Federal effort in those 350 major disasters, but also processed loan applications for the disasters that were declared under SBA's own declaration authority. SBA disaster loans are an essential tool in the Federal government's toolkit for assisting disaster victims following a natural disaster or terrorist incident.

Creating the Environment for Reform

I see the current predicament for SBA as being similar to the FEMA that I inherited. In getting ready for my testimony this morning, I reflected on my time as FEMA Director since I see the solutions for repair of SBA as analogous to the kinds of reform that was required for FEMA at that time. I also am reminded of the critical role that Congress and our oversight committees played in the re-invention of FEMA.

When President Clinton asked me to be his FEMA Director after he won his first election in 1992, we were facing many of the same issues following Hurricane Andrew that FEMA and SBA face today following the response and recovery assistance after Hurricane Katrina.

The response and recovery efforts had been slow and inadequate following Hurricane Andrew in 1992 - only a few years prior to my appointment as FEMA Director. From the Senate floor, Senator Hollings famously called FEMA the biggest bunch of jackasses he had ever seen and often talked about how FEMA could not even lead a one car parade.

When I arrived in Washington, there were several bills in Congress to abolish FEMA. Some proposals sought to break it up and give its responsibilities to numerous agencies and some advocated turning everything over to the military following a disaster.

There were several reasons why we were successful in turning FEMA around and making it into a model agency, but it had everything to do with strong leadership and a committed desire to change the system. It started with President Clinton and key members of Congress who gave us a chance to make FEMA work.

Leaders like Congressman Louis Stokes and Jerry Lewis and Senators Barbara Mikulski and Kit Bond gave us the funds and the support we needed to get things turned around and it was very much a bi-partisan effort. I credit those great statesmen and women for working with us and not giving up on the vision of what FEMA could become and how we could re-make our nation's approach to delivering disaster assistance and reducing future losses though prevention and mitigation programs.

Fixing FEMA really required a desire for the Clinton Administration to work with Congress – to make Congress a partner in the re-invention of FEMA; to give members of the House and Senate the information being requested; and for us at FEMA to listen to the suggestions for improvements coming from Capitol Hill. It also required great patience and commitment on behalf of Congress. Our oversight committees gave us the necessary legislative changes and resources, but they also demanded accountability and really held our feet to the fire. There were numerous reports on the status of the Disaster Relief Fund and regular updates on the various reform initiatives that we had put in place. It was this kind of partnership between the Executive and Legislative Branches that created the necessary environment for an historic change at FEMA.

The partnership between the Administration and Congress allowed us to look at legislative changes or clarifications that made FEMA more effective at responding. This gave us better

clarity about the ability to pre-position resources even before a disaster occurred and before the President actually made the formal disaster declaration.

We created and trained Emergency Response Teams with the best and brightest members of FEMA who could be ready at a moment's notice and who could deploy within hours to a disaster area.

We professionalized the Federal Coordinating Officer cadre and other disaster reservists through on-going credentialing and standardized training initiatives. We cross-trained and re-trained employees in the agency who had never had disaster responsibilities so that they could help out in the field or could play support roles back in headquarters. It is not that they did not want to take on that responsibility, but rather that they had never been asked or trained how to work in the disaster programs.

We made better use of technology to speed up the damage inspections in the field and the processing of disaster assistance that exponentially increased the speed with which we issued assistance to disaster victims. We reduced the time it took for disaster victims to receive assistance from an average of three weeks to and average of seven days. Seven days was just the average, it was frequently even quicker than that. We were able to make those changes to the FEMA assistance delivery system in 1994, over a decade ago and before the internet had become widely used, just imagine how technology could be leveraged today to expedite assistance to disaster victims now.

We even got Congress to invest more in mitigation and prevention efforts by increasing the amount of funding available following a disaster to mitigate future risk and by creating the first pre-disaster mitigation fund to address risk before a disaster occurred.

I mention my experiences at FEMA not simply to relive the good old days, but to offer some hope and encouragement and possibly a blueprint for what the Small Business Committee and the SBA are embarking on today. You have the power to impact so many lives of our fellow Americans who experience great suffering following the ever-increasing number of natural disasters that we experience each year and for whom there is constant concern about future terrorist attacks on US soil.

Legislative Fixes and the Blueprint for enhancing SBA's role in Disasters

I have reviewed the legislation that the Committee has drafted and believe that the bill is what is needed to restore and improve the SBA disaster programs that are so critical to a community's recovery from disaster and resiliency to future disasters.

I agree that SBA must have comprehensive disaster response plans in place that incorporate a risk-based all-hazards approach. Training and exercising these plans with all of SBA's partners in disaster is essential. Federal, state, and local government must exercise together, but it is also important to include the private sector and that plans address the need for surge capacity during a disaster. There are several states such as New Jersey, Texas, and Illinois that are building business mutual aid networks that can support both the public and the private sector with resources during a disaster. It is the business cards that are exchanged and the relationships that are developed through pre-disaster planning, training, and exercising that lead to an effective disaster response and a quick recovery. It is not only prudent and appropriate for SBA to have such plans in place and regularly exercise with partners in disaster, it is important for the Federal government to model what it is asking individuals and families, businesses, states and municipal governments to do – be prepared.

It is always a challenge to maintain an appropriately sized disaster reservist cadre with well-trained individuals, but it will either make or break the quality of response and recovery efforts following a disaster. When I was FEMA Director, I was always amazed at the quality of the individuals that we were able to recruit and train as disaster assistance employees (DAEs). Many of these people were retired CEOs, COOs, CFOs of large organizations. Our disaster reservists were senior, decorated military veterans; they were skilled architects and engineers who had flexibility in their jobs or they had employers who recognized the important role that temporary disaster assignments could play in the lives of their fellow Americans both personally and professionally. There is so much talent in the communities throughout our nation, and it is imperative that we tap into this talent and direct the energy and goodwill that exists when disaster strikes. The Committee's bill stresses the importance of just such staffing efforts and I agree with your insights. I would also suggest that you consider offering health benefits for the temporary disaster workforce. Maintaining a quality disaster cadre can be difficult without the ability to offer health benefits. When I was at FEMA we were sought and received the authority for 2-year and 4-year term appointments known as Cadre on-call Response Employees (CORE). We created the CORE positions to insure that we did not lose experienced folks in our disaster programs and to make sure that we retained the employees in whom we had invested so much training.

Another issue that I found difficult to get a handle on was the FEMA disaster budget. Initially, I couldn't get anyone to tell me exactly how much we had in the Disaster Relief Fund (DRF) at any given point. Consequently, it was difficult for FEMA to know how much money to ask of Congress for the disaster programs. Planning for disasters is a lot more difficult if you do not know how much of your resources are available. Additionally, it was difficult for Congress to justify the amount of funding to appropriate to FEMA. We immediate began working to establish the 5-year average for declared disasters, excluding the 1994 Northridge Earthquake in the Los Angeles Area as the outlier, and came up with $2

billion as the annual funding needed with some contingency funding at the Office of Management and Budget to allow for unexpected emergencies.

As FEMA and SBA work to reform the manner in which their agencies operate and revise their respective disaster programs to better meet the needs of disaster victims, it will be even more important to re-examine how the two organizations and their various disaster programs work together. I suspect that some of the previous grant levels for FEMA and loan amounts for SBA should be reviewed to determine if they are continuing to meet the disaster needs of businesses and individuals. In addition to raising the caps on small business loans, I would also suggest a review of the maximum loan amount for homeowners as the $200,000 limit is no longer adequate in most real estate markets. Every disaster is different so the programs require the necessary flexibility to address constantly changing situations, but it is also important to have parameters and goals that keep in tact the over-arching philosophy of Federal disaster assistance as a supplement to private insurance, state assistance, voluntary organizations, and help from family and friends.

From my experience as FEMA Director, I found there to be a very close working relationship between the FEMA and SBA leadership that lead to a seamless Federal approach to disaster assistance. A lot of times the coordination on disaster assistance happened in a relatively low-tech way by having our SBA partners sitting in the FEMA teleregistration and helpline phone centers so that when a disaster victim called with a SBA loan issue instead of a FEMA inquiry, we were able to easily re-direct the call to the SBA staff that were sitting along side our staff. With the volume of applications and the unique problems that arose following Katrina, it is especially important that these close coordination is still taking place now while both organizations are working to respond to the failures highlighted following Hurricane Katrina. The Committee may want to ask SBA, FEMA, IRS, and others agencies to study ways to better share information of those applying for assistance while still respecting Privacy Act concerns. The ability for these agencies, and others active in disasters, to share information will allow for expedited application and review, better accuracy, and less frustration on behalf of disaster victims. The sharing of this information will facilitate the verification of addresses, social security numbers, and other common data that all of the agencies collect separately; but that each of them needs to administer their respective programs.

When we began working on the re-invention of FEMA in 1993, the first priorities needed to be improvements to the speed and accuracy with which we delivered disaster assistance. After we completed that, we very quickly turned our attention to some of the broader system issues of the damage-repair-damage cycle that exists. In doing so, we focused on promoting prevention and mitigation of risk. We recognized that it would give us the best return on the federal investment. This Committee is beginning the reform of SBA by seeking to correct the problems with the SBA disaster assistance programs and delivery systems that were uncovered through hearings, that GAO identified in its February report on the SBA response to Katrina, that dedicated and frustrated career civil servants are sharing because they know SBA can do better and has done better in the past, and that small businesses and individuals in the Gulf States are sharing about their experience since Hurricane Katrina devastated that Region. While addressing and correcting the speed and accuracy for administering disaster loans is the front burner issue today, I would encourage you and the SBA leadership to also look at the larger systemic issues and to begin identifying how the

SBA can also impact the damage-repair-damage cycle that exists and how SBA can help promote better preparedness and mitigation in our communities.

Another area that I believe SBA can play an important role with in the future is in facilitating regional public-private partnerships for security and sustainability. The Department of Homeland Security (DHS) has emphasized the importance of regional planning and of public-private collaboration, but has not shown much leadership to date in facilitating such efforts. There are a number of organically grown initiatives that have sprung up but so far DHS has done very little to provide any blueprint to guide such efforts, and technical assistance, or any seed funding to establish regional public-private partnerships that promote preparedness and mitigation efforts. I would ask that this Committee, together with SBA, discuss whether and how SBA might assume a leadership role in this area in the future. We are reminded of the interdependent nature of the public sector and the private sector whenever the often-quoted statistic that 80-85% of the nation's critical infrastructure is owned or controlled by the private sector. Additionally, we need to look no further than the incident that has resulted in our hearing today – Hurricane Katrina. Katrina severely disrupted thousands of businesses throughout the Mississippi Gulf Coast Region and had a significant impact on our economy.

While there are many business success stories following Hurricane Katrina with larger corporations such as Wal-Mart, Home Depot, and FedEx coming back online quickly and being open for business within days, you know all too well that small businesses did not fair as well. A study conducted for MasterCard International earlier this year found that 84% of small business owners in the US are not worried that a natural disaster will not affect them in the next 12 months; however, 77% of these owners admit that their businesses are not fully prepared should one occur. These findings strongly support the need for better planning and preparedness that involves all of the players having a stake in the recovery process. Businesses, non-profits, volunteer groups, federal, state and local governments need to come together in a concerted effort. As you work to address the immediate reforms that are need at SBA, please continue to consider an SBA role in addressing the longer-term needs of preparedness and mitigation.

The Time to Act is Now

It is human nature, and continues to be borne out by the actions of corporations and governments, that disaster programs are frequently cut during the short breaks in the natural disaster activity or in light of new or emerging threats such as terrorism. However, as I close my testimony today, I offer a few observations that suggest we would be wise to resist such a natural tendency to let our guard down or to roll the dice with the programs we have to assist our fellow citizens following a disaster.

The recent trilogy of international catasttrophic disasters that included the South Asia Tsunami late in 2004, Hurricane Katrina in 2005 and the 2005 Kashmir earthquake, demonstrated again the awesome and destructive power of nature. These mega-disasters were responsible for the loss of over 200,000 lives in the tsunami, 73,000 lives in the earthquake, and 1,200 lives in the hurricane. In addition to the previously unimaginable loss

of life, these natural disasters each have had staggering long-term economic, ecological and social impacts on the communities in which the catastrophes occurred.

Even during years without disasters of such historic magnitude, the impacts of natural disasters are becoming increasingly more costly and this trend is being tracked by global insurance companies such as Swiss Re. Swiss Re's annual report that looks at the global costs of disasters found that in 2003 human-caused and natural disasters resulted in 60,000 deaths and about $70 billion in economic losses. In addition, it is estimated that the economic costs of such disasters threatens to double, reaching an average of $150 billion a year in the next 10 years.[1]

The World Watch Institute, in its publication *State of the World 2001: A Report on Progress Toward a Sustainable Society*, demonstrated the human cost of disasters by examining global deaths by disaster type and found that floods were responsible for forty-nine percent of deaths, that earthquakes or volcanoes were responsible for thirty percent of deaths, that windstorms were responsible for fifteen percent of deaths and that all other disasters caused six percent of deaths. The World Watch report also notes that floods alone cause nearly one-third of all economic losses, half of all deaths, and seventy percent of all homelessness. [2]

Those communities that have taken steps to reduce their risks have realized significant returns on their investments. In fact, the World Watch Institute study found that every dollar spent on disaster mitigation and preparedness saves seven dollars in disaster related economic losses.[3] SBA already is an important player in US disaster recovery efforts and with the help of this Committee it can lead efforts with the business community and municipal leadership to make our communities safer and more resilient.

Thank you and I would be glad to answer any of your questions.

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[1] Thomas Hess, Sigma No. 1/2004 Natural Catastrophes and Man-made Disasters in 2003: Many fatalities, comparatively moderate insured losses Published by Swiss Reinsurance Company Economic Research & Consulting pp. 3-14

[2] Janet Abramovitz, State of the World 2001: A World Watch Institute Report on Progress Toward a Sustainable Society, 2001, World Watch Institute, pp. 123-142

[3] Ibid

National Black Chamber of Commerce
1350 Connecticut Avenue NW Suite 405, Washington DC 20036
202-466-6888 202-466-4918fax www.nationalbcc.org info@nationalbcc.org

CONGRESSIONAL TESTIMONY

SBA's DISASTER RELIEF PROGRAMS

Presented to:

HOUSE COMMITTEE ON SMALL BUSINESS

HONORABLE NYDIA M. VELAZQUEZ, CHAIRWOMAN

Presented by:

HARRY C. ALFORD, PRESIDENT/CEO
NATIONAL BLACK CHAMBER OF COMMERCE, INC.
March 8, 2007

Testimony of Harry C. Alford, President/CEO, National Black Chamber of Commerce

Madam Chairwoman, distinguished members of this important Committee, I express my gratitude in having the opportunity to address you about this very important subject – Disaster Relief Programs of the SBA. Since that dreadful day in August, 2005, we have been reeling from our inability to provide proper response and relief to a certain segment of our population. The reality of our inability to properly come to the aid of fellow Americans is a topic that demands our full attention and correction. God forbid if we have to repeat the incompetence, arrogance and neglect exhibited before the world via television. It was a shame directly attributed to the richest nation on earth.

The National Black Chamber of Commerce was founded in 1993. Its mission is to promote entrepreneurial growth and economic development in African American communities and the Black Diaspora. According to the United States Census Bureau, small business in America is booming. Leading that growth is the Black business segment that has grown by over 42% during the period of 1997 – 2002. We have numerous chapters and direct membership throughout the recent hurricane affected areas of Texas, Louisiana, Mississippi, Alabama and Florida. Prior to Katrina, the State of Louisiana had the eleventh largest population of Black owned businesses by itself. The region accounted for the largest regional representation of Black owned firms.

Despite this vitality of growth and development, we have witnessed from budget cycle to budget cycle the reduction of funding and resources to the US Small Business Administration. As our numbers have grown, the services and manpower of the SBA has been heading in a downward cycle. The current budget request from the SBA is $464 million dollars. I recall the funding of over $860 million less than 10 years ago. How does a nation that prides itself in small business growth, which provides 70% of all new jobs, apply a "choke hold" on the SBA?

We are faced with an ever competitive global market. Yet, we have dwindled the SBA to a point of anemia. Our readiness had been depleted and the SBA became a "disaster waiting to happen". Eventually, the challenge emerged with the start of Hurricane Katrina. Yes, it was the greatest natural disaster in our recorded history but the worst came with a response that could not even attempt to be adequate or meet the demand.

This great nation deserves a viable Small Business Administration. One that can complete its mission and serve the needs of Americans and their small businesses, replete with a 21st century disaster program. By simply transferring the costs of three (3) new F-22 fighter jets we could double the budget of the SBA and return it to mid-1990's levels. Yes, we must think and plan better and meet the mission with more efficiency but you cannot achieve this by eliminating basic funding. Time is of the essence and restoring the faith of Americans is paramount.

According to the SBA, on August 1, 2005, the Disaster program had 880 employees on board; by December, the number of active personnel had grown to almost 4,000. The new personnel had to be trained, and more than 400,000 square feet of work space had to be acquired. The question now is this: Will we maintain levels that resemble the 4,000 employee level or do we revert back to the inferior staffing of 880?

This nation must be ready for the next Katrina. There was a painful lesson learned and we must act accordingly. This is going to take more resources – staff, systems and funding. We can no longer afford to keep our "heads in the sand". What is at stake are the lives of Americans, their jobs and businesses. A first world economy deserves a first world disaster plan and readiness.

In terms of planning, the SBA should be required to develop, implement and maintain a comprehensive written disaster response plan based on the intensity of Katrina. Office space, staffing, systems complete with coordination scenarios with applicable federal agencies should be established as soon as possible. This plan should be tested through drills and exercises that would simulate a major disaster. These plans should be realistic with proper resources and not designed as "blue skies".

There should be a position established to administer the above project. An Associated Administrator for Disaster Planning should be created to coordinate with the SBA's Associate Administrator for the Office of Disaster Assistance, FEMA, and other federal, state, and local disaster planning offices as necessary. This officer will report directly to the Administrator and will be responsible for planning for and leading the agency's annual training exercises. It should go without saying that this person's background will be consistent with the duties assigned. In other words, let's not have a simple political appointment (without rhyme or reason) who will have a "melt down" during the first crisis.

In regards to lending, we must have a comprehensive program that will significantly increase legislative limits on business loans. The process for personal and business lending should be streamlined to expedite funding and a system that is not punitive to the borrower in terms of repayment period and subsidies. We can enhance the lending authority for our Preferred Lenders so that they can originate, process, and disburse home disaster loans for a small fee.

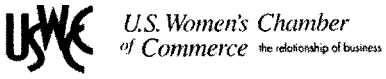
Short term loans, similar to the bridge financing provided by the Mississippi State Legislature, should be provided so that businesses can get started immediately with their rebuilding while they wait on the traditional disaster loan process. Grants for certain conditions can also be considered in order to "jump start" local rebuilding of businesses that provide jobs to the affected areas.

The SBA should have adequate funding for outreach and marketing. Businesses within our communities rarely know what the SBA is and its programs. I dare say that the majority of the over 1 million Black owned businesses in this nation do not know the

address of the nearest SBA District Office or the District Manager and the applicable staff. Whether they are a mile away or 100 miles away there is no adequate interaction.

There must be proper oversight so that we are assured of readiness when the next major calamity occurs. Congress should require the SBA to submit an annual report on Disaster assistance program performance during the previous fiscal year. This report should cover changes in staffing, technology, and a review of challenges encountered and overall results. During times of long-term recovery, such as now, the SBA should make monthly reports to Congress on the status of the program.

Madam Chairwoman, distinguished members, your consideration of these proactive changes are greatly appreciated. We need a SBA that is equipped, trained and funded to better serve the needs of the people of this great nation.



Testimony
of
Margot Dorfman
Before the House Small Business Committee
Hearing on "Hearing on Disaster Relief and Access to Capital Legislation"
March 8, 2007

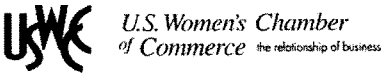
Chairwoman Velázquez , Ranking Member Chabot, and members of the House Small Business Committee, my name is Margot Dorfman and I am the CEO of the U.S. Women's Chamber of Commerce™ (USWCC). I am pleased to be here today to share the USWCC's strong support of the RECOVER Act of 2007, an important piece of legislation that will give small business owners the security of knowing that the Small Business Administration (SBA) will have an effective plan in place to meet their needs in times of crisis.

The 2005 Gulf Coast Hurricanes had a dramatic impact on the small business members of the U.S. Women's Chamber of Commerce. But as much as they were alarmed by the damage the storm caused to their communities, they have also been shocked by how badly managed the disaster response has been. Time is of the essence in these emergency situations. For many of our members, timeliness proved to be as important as receiving the assistance itself.

It was clear that SBA was completely unprepared to deliver disaster assistance on the scale that was demanded, and certainly not on a timeframe that would have expedited recovery. Instead of executing a plan that was already in place, the administration reacted to events on an ad hoc basis—ramping up employees and locations as the demand grew. Unfortunately, that meant that by the time additional resources were added, small business owners were already experiencing the terrible customer service that came to characterize SBA's handling of the response to the 2005 Gulf Coast Hurricanes.

The U.S. Women's Chamber of Commerce enthusiastically supports the RECOVER Act of 2007 because it requires SBA to look ahead to future disasters and plan for a variety of possibilities. Readiness is the key to delivering timely, effective disaster loan services. This year, communities around the country have called on SBA to respond to a variety of non-hurricane disasters. From ice storms in Iowa to tornados in Florida, it is vital that strategies be in place to respond effectively to the needs of small businesses, regardless of the location, size or type of the disaster.

In addition to creating comprehensive disaster readiness plans, the RECOVER Act also requires SBA to maintain those strategies over the long-term. At USWCC, we believe that this is a critical function of this legislation. Although many people are still struggling to recover from recent disasters today, it is important that the SBA's disaster readiness not be allowed to atrophy in the future when conditions for victims of the 2005 Gulf Coast hurricanes have improved. Ten years from now, we hope to see SBA with a robust, agile disaster loan program that has comprehensive and practiced plans for a variety of disasters.



This legislation also makes important updates to the SBA's disaster lending processes—systems that, the 2005 Gulf Coast hurricanes demonstrated, were badly in need of modernization. By providing solutions to problems that the SBA had in processing, improving, and disbursing loans in a timely manner, the RECOVER Act will increase small business owner confidence in SBA's disaster service. This legislation recognizes that assisting small business owners after a major catastrophe is not a one size fits all proposition; it will give the SBA more tools to provide small businesses with relief depending on their individual circumstances, including bridge loans and grants. This legislation will allow the SBA to get private lenders involved to provide timely and effective service to business owners in disaster situations. Entrepreneurs will have access to the same affordable SBA loan with low interest rates and long repayment terms—just at a different location, serviced by a bank in their community.

In closing, I want to thank the members of the Small Business Committee for actively addressing the problems so many small business owners experienced after the hurricanes in 2005. It is critical that we learn from those experiences—the kind of stories we are still hearing from our U.S. Women's Chamber of Commerce members 18 months later—and make the needed changes that will ensure that, if such a terrible disaster happens again, the SBA will be in a better position to help entrepreneurs get back on their feet. I thank you again for your time today,l and welcome any questions you may have.

HOUSE SMALL BUSINESS COMMITTEE
HEARING REGARDING
CAPITAL ACCESS LEGISLATION
MARCH 8, 2007

Testimony of
Associate Administrator Michael Hager

Good Morning Chairwoman Velazquez, Ranking Member Chabot and distinguished members of the Committee. My name is Michael Hager, and I am the Associate Administrator for the Office of Capital Access at the US Small Business Administration. Thank you for inviting me to discuss legislative proposals affecting our business lending programs at SBA.

SBA has experienced significant growth in our programs over the past five years, more than doubling the number of 7(a) and 504 loans funded. In FY 2001, the loan programs served about 42,000 small business borrowers, and by FY 2006, the number jumped to over 100,000 in our major business lending programs.

This growth is due, in large part, to the zero subsidy policy that has been adopted for both the 7(a) and 504 loan programs. Zero subsidy has allowed the Agency to stabilize our lending programs and meet the financing demands of small businesses, without the need for loan caps or temporary suspensions of program availability due to appropriations shortfalls, such as those which occurred in 2003 and 2004.

While reaching more and more small businesses at an extraordinary rate, fees in the 504 program have gone down significantly, and the upfront fees in the 7(a) program are at the same level as 1997. Further, zero subsidy has provided stability in the program, which is of utmost importance to the lenders across the country that participate in our programs and deliver much-needed financing to America's entrepreneurs.

We share the Committee's desire to support small business development and continue the vital contributions small businesses have made to America's economic growth in recent years. On behalf of SBA Administrator Steven Preston, we look forward to working with the Committee to ensure that entrepreneurs have access to the capital necessary to start, grow and strengthen their businesses.

We understand that the Committee is considering legislative changes to SBA programs, particularly relating to taxpayer subsidy for our business lending programs, lender participation and application processes, and targeted products for veterans and businesses in low income communities. Before I comment about these proposals, I would like to share a few proposals from the SBA.

National Preferred Lender Program

SBA recognizes the need to make our products more user-friendly for the lenders who participate in our programs and requests that a National PLP lender approval and renewal process be authorized. SBA already provides this status but would appreciate statutory authority supporting that activity.

Lender Oversight

SBA has a programmatic responsibility to oversee operations of all SBA lenders, including Certified Development Companies (CDCs). The ability to charge CDCs and retain fees for the cost of reviews would provide SBA with the means to conduct these reviews, take necessary follow-up actions, and generally carry out SBA's programmatic responsibilities in this regard. This change parallels the Small Business Investment Company (SBIC) and 7(a) examination/review fee language found in the Small Business Investment Act and Small Business Act, respectively.

Enforcement Authority for Small Business Lending Companies

SBA proposes a clarification to the definition of small business lending company (SBLC) necessary to reinforce SBA's authority to regulate, supervise, and examine SBLCs. Though the number of SBLCs is small, as a group they originate a high volume of SBA guaranteed loans. Consequently, SBA's risk exposure is great with regard to this group of lenders and it must be clear that SBA has the authority to regulate, supervise, and examine them.

Maximizing use of electronic technologies

Increasing usage of such technologies will enable SBA and its partners to reach small business clients at the times and in the places that are most convenient to them, and will help to make the delivery of services more efficient and cost-effective. Explicit authority mandating the use of electronic technologies, will give SBA greater leverage with its resource partners and will also support SBA's effort to use Agency resources to develop E-products and to provide services in an electronic environment.

Real Estate Appraisals

SBA wishes to harmonize the appraisal policy between the 7(a) and 504 programs so that an appraisal by a state licensed or certified appraiser is required when the commercial real property being financed is worth more than $250,000.

Leasing Policy

SBA also wishes to harmonize the leasing policy between 7(a) and 504 and set a common standard allowing up to 40% of a facility to be leased for a new or existing building. This would eliminate the current distinction between new construction and existing property and address ambiguity in the current statute.

Use of Systematic Alien Verification for Entitlement Programs

SBA also requests legislative authority for SBA to require that lenders use the Systematic Alien Verification for Entitlement (SAVE) program for the verification of alien status. This will eliminate the current verification process, and would speed loan transactions by using the SAVE program.

Secondary Market Guaranty

SBA requests authority to charge a fee on loans sold in the secondary market. SBA has a responsibility to provide prompt payment on the pools of these loans separate from the 7(a) loan guaranty. This fee would cover the potential future subsidy cost of ensuring the payment of pool certificates. The fee would be payable by the investor in the secondary market certificates. We estimate that in any given year the fee will be modest and no more that 6 basis points. This type of fee is already used by the Ginnie Mae secondary market program and eliminates the taxpayer subsidy costs for that program.

I would now like to comment on the proposals forwarded to us by the Committee.

Section. 101. Fee Reductions

The Administration remains opposed to reintroducing taxpayer-funded subsidy for the 7(a) program. We are concerned that reintroducing subsidy will have the effect of destabilizing the program for lenders and risking loan caps and temporary shutdown of the program due to appropriations process delays and shortfalls.

Further, the Federal Credit Reform Act (FCRA) specifically requires that agencies obligate for the cost of loan guarantees based on the "current" assumptions, as defined in the Balanced Budget Act; this means that obligations must be based on the economic and technical assumptions used in formulating the President's Budget. Loan type mix and performance estimates for 7(a) are considered technical assumptions and are calculated in advance of the year solely on an annual basis. Revising the loan type mix on a quarterly basis would not only be technically daunting, it would clearly be inconsistent with the requirements of the FCRA.

Section. 102. Rural Lender Outreach

The Committee's proposal includes language establishing a Rural Lending Outreach program. We share your commitment to ensuring participation of lenders in rural areas, and continue to see the number of loans increase in this market. However, the Agency has experienced a loss of small bank lenders, particularly in rural areas. SBA believes that this initiative, with proper credit underwriting standards can encourage the use of the program by smaller lenders. However, it would need to be structured to avoid duplication of the existing rural loan programs of the USDA. Moreover, changes to current limitations on low documentation loans and experience requirements for lenders could raise program costs.

Section. 103. Making Community Express permanent

We support the concept of making the Community Express program permanent. The program provides an 85 percent guarantee on loans of up to $150,000 and 75 percent on loans up to $250,000 and provides for management and technical assistance to entrepreneurs. Community Express allows lenders to use their own forms and loan procedures, which is particularly important for those who only do a few SBA loans each year. However, SBA opposes the provision requiring that loans under $25,000 have no collateral. SBA believes that this decision is best left with our lending partners to assess on an individual basis. We are concerned that a blanket policy may actually result in many marginal borrowers being left out. SBA also has concerns over the potential constitutional ramifications of the language. Paragraph (A)(i) appears to create a statutory preference for certain groups. SBA would prefer language that was focused more on low income and underserved communities which would offer service to those groups without implying preferences.

Section. 104. Medical professionals

SBA commends the Committee for recognizing the importance of expanded health care access in low income communities. We regularly do a significant amount of lending to medical professionals who are seeking to establish practices. While the Committee's legislation includes a borrower and lender subsidy specifically for medical doctors and dentists located in low income areas, we do not believe that such a marginal savings on loan payments due to a subsidy would create a significant impetus for medical professionals to establish services in such areas.

We also believe that any such proposal will have a significant upward effect on the subsidy rate. Finally, I must point out that both this provision and section 105 violate federal credit policy which dictates that loan guarantees should not exceed 80 percent.

Section. 105. Veterans Participation

The Administration shares the Committee's desire to make the benefits of the 7(a) loan more available to veterans. However, we must point out that this proposal will have a significant upward effect on the subsidy due to the elimination of fees.

Section. 106. Alternative Size Standard

We recognize the Committee's desire to adopt a simpler method for determining whether a business qualifies as a small business under the Small Business Act. However, we have concerns about the potential for misapplication to borrowers who are large businesses. Thus, we ask that the legislation provide the Agency with the flexibility necessary to ensure that the businesses utilizing our programs are true small businesses. The Administration looks forward to working with you to develop a better alternative size standard policy for our business financing programs.

With regard to the 504 loan program provisions in Title II, the Administration largely supports the provisions that focus 504 as a local economic development program. Likewise, we have no significant concerns with provisions outlining the operating areas for Certified Development Companies. There may be some technical concerns but we appreciate the committee's willingness to work with us on these areas. However, there

are a few provisions about which the Administration must definitively express its concerns

Section. 207. Refinancing

SBA wishes to express concern that poorly performing debt not be refinanced into the 504 program. We appreciate the need to refinance existing indebtedness in certain circumstances but would appreciate the ability to define those terms. We are also concerned that any large scale refinancing could displace private credit, which violates federal credit policy.

Section 211. Maximum eligibility

The Administration must express its opposition to this provision. It would essentially permit up to 6 million dollars in financing to one small business. SBA firmly believes that financing at that level should be relegated to the SBIC debenture program, a program far better suited to capital investments of this size.

Chairwoman Velazquez that concludes my testimony. I look forward to answering any questions you may have.

STATEMENT OF THE

AMERICAN DENTAL ASSOCIATION
TO THE
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

ON

CREATING INCENTIVES FOR HEALTHCARE PROVIDERS TO ESTABLISH PRACTICES IN UNDERSERVED AREAS USING SBA LOANS

SUBMITTED BY

KATHLEEN ROTH, D.D.S.
PRESIDENT

MARCH 8, 2007

My name is Kathleen Roth, president of the American Dental Association (ADA) and a practicing dentist in West Bend, Wisconsin. Chairwoman Velazquez and members of the committee, I am here to express the ADA's support for your legislation that would establish a new "Medical Professionals in Designated Shortage Areas Program" in section 7(a) of the Small Business Act (SBA). This new medical professionals' provision would decrease the cost of obtaining SBA loans for physicians, dentists and other health care professionals who open offices in designated health professional shortage areas by reducing origination fees and increasing the guarantees offered to lenders.

Inadequate Access to Oral Health Care for Underserved Populations Needs to be Addressed

The ADA, representing approximately 72 percent of the dental profession, strongly believes that all Americans deserve access to quality oral health care services. The Association is committed to working with all stakeholders to find solutions to providing the care that is needed by underserved populations who suffer a disproportionate degree and severity of dental disease. As U.S. Surgeon General David Satcher noted in his 2000 landmark report *Oral Health in America*, dental caries (tooth decay) is the most common chronic disease of childhood – five times as common as asthma, and low-income children suffer twice as much from dental caries as children who are more affluent. In fact, fewer than one in five underserved children sees a dentist in any given year, according to data collected by the Centers for Medicare and Medicaid Services. These children cannot eat well, resulting in poorer health; they cannot study, reducing their performance in school; and they do not want to smile. Their self-esteem is negatively affected. They grow up to

be adults who continue to be affected by the oral disease they faced in their younger years–often at a disadvantage in the job market due to poor oral health and appearance. More important -- the recent, tragic death of 12-year old Deamonte Driver, of Maryland, from a severe brain infection that may have resulted from a deplorable degree of untreated dental disease, underscores the urgency for passage of legislation that will enhance dental care access.

Charitable Care is not a Health Care System

In the absence of effective public health financing programs, many state dental societies have joined with other community partners to sponsor voluntary programs to deliver free or discounted oral health care to underserved children. According to the *ADA's 2000 Survey of Current Issues in Dentistry*, 74.3 percent of private practice dentists provided services free of charge or at a reduced rate to one or more groups (e.g., homebound, handicapped, low income). A total national estimate of the value of this care was $1.25 billion, or $8,234 per dentist. In 2003, the ADA launched an annual, national program called "Give Kids A Smile" (GKAS). The program reaches out to underserved communities, providing a day of free oral health care services. Give Kids A Smile helps educate the public and state and local policymakers about the importance of oral health care while providing needed and overdue care to large numbers of underserved children. In 2004, approximately one million children received free dental education, screening, preventive or restorative care from 38,000 dentists and dental staff volunteers. Through GKAS and many other voluntary events, dentists demonstrate that they will create

innovative ways to reach out to these underserved children. However, altruism alone will not provide sustained access to care for the millions in need.

Barriers to Oral Health Care are Well Documented

As a result of numerous national reports and conferences, the barriers to accessing dental care across the states and the causes of dentists' reluctance to participate in public programs have largely been identified. These barriers include:

• Low Medicaid reimbursement rates that are often less than what it costs dentists to provide care.

• Excessive paperwork and other billing and administrative complexities.

• Lack of case management to assist patients in receiving care, which can lead to high rates of broken appointments.

• Poor oral health literacy and awareness about the importance of oral health.

• The distribution or location of dentists within some states and local communities.

Improving the SBA Loan Program Potentially Targets the Vast Majority of Dentists

The overwhelming majority of dentists are small business people who could directly take advantage of improvements in the Small Business Act. Any enhancements in the loan program could have a positive effect on oral health care access by influencing the location of some dental offices. In fact, over 90 percent of all practicing dentists are in the private sector (totaling over 162,000) and the vast majority of private practice dentists operate independently owned solo practices (85%) or two-person practices (11%), employing on average of only 4.8 employees per dentist. So, the SBA "Medical

Professionals in Designated Shortage Areas Program" is targeting the right people to enhance access to oral health care services.

Safety net facilities such as dental schools, community-based clinics, migrant and rural health centers, school-based or school-linked programs, and mobile vans that target underserved populations primarily in inner-city and rural areas also are very important but they employ relatively few dentists. Efforts to expand care *only* through safety net facilities, including a significant new initiative by the Federal government to include dental clinics in all new Federally Qualified Health Centers (FQHCs) or FQHC expansions, face growing challenges because of difficulties in recruiting and retaining dentists. Building clinics is relatively straightforward; staffing them is a decidedly more difficult challenge, in light of the current workforce situation and levels of student indebtedness. Significantly, the American Dental Education Association reported that indebtedness for dental school graduates averaged $118,720 in 2003, with public school graduates averaging $105,350 and private/State-related school graduates averaging $152,525. This level of debt puts a great deal of pressure on young dentists to set up private practices in relatively affluent areas to the exclusion of underserved areas. Enhancements in the SBA loan program could help make it more feasible for such dentists to also establish an office in an underserved area.

ADA Supports Legislation with a Recommendation for Program Enhancement

We believe that the "Medical Professionals in Designated Shortage Areas Program" can play a useful role in helping to make it financially feasible for dentists to serve

underserved populations. However, we also believe the bill could be strengthened – the fees on the loan for the medical professions under section 104 should be eliminated (as they are under section 105 for veterans) not merely reduced by half. The Association understands that this suggestion would add to the cost of the legislation but we believe such a change is warranted given the extent of the access problems and the financial barriers faced by dentists who desire to establish a practice in an underserved area.

Such an enhancement would improve the potential for expanding the number of dentists participating in the loan program. As of September 30, 2006, there are almost 1,100 dental offices that utilize section 7(a) and section 504 active loans, averaging over $330,000.00 per loan. That figure can be significantly increased with passage of a new "Medical Professionals in Designated Shortage Areas Program," particularly with a waiver of the fees for the loan included as part of the provision.

SBA 7a and 504 Active Loans in the Portfolio by NAISC a of 09-30-2006

Naics	NAICS_Description	# Loans	AppvGross
721110	Hotels (except Casino Hotels) and Motels	1,856	$1,520,116,500
722110	Full-Service Restaurants	1,645	$744,725,000
621210	Offices of Dentists	1,093	$352,094,000
624410	Child Day Care Services	959	$344,566,799
447110	Gasoline Stations with Convenience Stores	900	$431,185,724
811111	General Automotive Repair	874	$233,990,400
621111	Offices of Physicians (except Mental Health Specialists)	768	$365,049,100
541940	Veterinary Services	606	$215,759,625
811192	Car Washes	606	$239,803,111
811121	Automotive Body, Paint, and Interior Repair and Maintenance	590	$210,031,000
541110	Offices of Lawyers	562	$201,613,100
722211	Limited-Service Restaurants	513	$196,483,000
541330	Engineering Services	452	$196,224,000
713940	Fitness and Recreational Sports Centers	365	$200,510,000
524210	Insurance Agencies and Brokerages	311	$112,785,000
445110	Supermarkets and Other Grocery (except Convenience) Stores	296	$161,628,000
621310	Offices of Chiropractors	289	$68,454,000
235110	Plumbing, Heating, and Air Conditioning Contractors	274	$80,124,000
531210	Offices of Real Estate Agents and Brokers	274	$117,491,000
442110	Furniture Stores	271	$171,966,000
441110	New Car Dealers	238	$167,609,000
Sum of all 7a and 504 loans			**$14,611,161,535**
Sum of total loans			**97334**
Percentage Dentists to Total Loans	**352,094,000/14,611,161,535**		**2.4%**
Average loan amount per dentist	**352094000/1093**		**$322,135**
Percentage of Dentists per total number	**1093/97334**		**1.10%**

WRITTEN STATEMENT
OF
JEFF RODMAN
PRESIDENT
ACTORS FEDERAL CREDIT UNION
ON BEHALF OF THE
CREDIT UNION NATIONAL ASSOCIATION
BEFORE THE
SMALL BUSINESS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES
MARCH 8, 2007

Chairwoman Velazquez, Ranking Member Chabot, and other members of the Small Business Committee, I am Jeff Rodman, President of Actors Federal Credit Union in New York City. I appreciate this opportunity to appear before the Committee on behalf of the Credit Union National Association (CUNA) and to express the Association's support for legislation to improve the Small Business Administration's 7(a) Loan Guaranty Program and make the program more affordable and accessible to small business owners and smaller lenders. CUNA is the nation's largest credit union advocacy organization, representing over 90% of our nation's approximately 8,800 state and federal credit unions, their State credit union leagues, and their 88 million members.

Actors Federal Credit Union, located in the heart of New York City's theater district, has over $86 million in assets and serves over 16,000 members in the entertainment community. Founded in 1962 by members of Actors' Equity Association, Actors FCU serves 75 different groups involved in theater, dance, music and motion pictures, as well as behind-the-scene workers involved in makeup and hair, studio mechanics, camera and lighting, and theatrical wardrobe. Some noteworthy facts about Actors FCU's history include giving our first mortgage to the late actor Jerry Orbach in the1960s and having Angela Lansbury become our ten thousandth member in 1979.

In addition to providing an array of traditional financial services, Actors FCU offers an unusual and unique small business lending program. Our loan products must respond to the unique needs and circumstances of our members, many of whom would be considered bad credit risks at local banks because of the periodic nature of their work or lack of standard income documentation. We also make many loans that would be considered too small for most banks to consider. For example, Actors has made over $2 million in small loans for financing musical instruments.

Madam Chair, Actors has considered participating in SBA's 7(a) program for some time and believes it would both expand and enhance our business services to members. We received numerous inquiries about 7(a) loans from members seeking larger loans to purchase equipment for a production company or costumes for a theater group. Unfortunately, we have found the process for qualifying as an SBA lender, and the requirements for underwriting and servicing individual loans, to be too cumbersome and

time consuming to recoup the expense for the small size or number of loans we would make. Recent increases in both lender and borrower fees for the 7(a) program provide an additional disincentive for initiating a full 7(a) loan program that many of our members may find to costly to use.

Credit Union Involvement in SBA's 7(a) Loan Program

CUNA is a strong supporter of the 7(a) loan program, which provides America's 26 million small business owners with the capital and technical assistance needed to start and expand their businesses. We view the 7(a) program as an essential tool for achieving the credit unions' mission of serving all the credit needs of members, particularly low- to middle-income individuals and groups living in communities that are not adequately served by other traditional financial institutions.

We want to commend Chairwoman Velazquez for her sponsorship in recent years of amendments to the Science, State, Justice and Commerce Appropriations bills to increase annual appropriations for the 7(a) program in order to reduce costs to both borrowers and lenders. CUNA was pleased to be part of a coalition of 20 business groups advocating for these important amendments. We also commend the Chairwoman for her recent leadership in opposing the significant cuts proposed in SBA's core programs in the Administration's FY2008 budget request.

While CUNA strongly supports the 7(a) program, its member credit unions have not been major participants in the program. Currently, less than 2% of all U.S. credit unions offer SBA loans to their members. While larger credit unions are more likely to be involved with SBA loans, and business lending generally, only about 18% of larger credit unions with more than $500 million in assets offer 7(a) business loans. While the number of credit unions participating in the 7(a) program has increased steadily since 2003, SBA-guaranteed loans represented only a small portion (2.6%) of all business lending to credit unions members in 2006.

Several important factors have discouraged larger numbers of credit unions from participating as 7(a) lenders. First, Congress imposed overly strict limits on credit union business lending as part of the 1998 Credit Union Membership Access Act (CUMAA). From their inception in the early 1990s, credit unions had been active business lenders with no limits on the volume of business loans they could originate or hold. CUMAA imposed additional regulation on member business activity and a loan volume cap of 12.25% of credit union total assets. This arbitrary cap had no basis in either actual credit union business lending or safety and soundness considerations. Indeed, a subsequent report by the U.S. Treasury Department found that business lending by credit unions was more regulated than other financial institutions, and that delinquencies and charge-offs for credit union business loans was "much lower" than that for either banks or thrift institutions.[1]

[1] Credit Union Member Business Lending. U.S. Department of the Treasury, January 2001.

The effect of the 12.25% business loan cap has been to discourage credit unions from initiating business lending programs. Given the added requirements and start up costs for an approved member business lending (MBL) program, including hiring of experienced staff, many credit unions fear that these added costs can not be recovered with a lending limit of only 12.25% of assets. As a result, the number of credit unions offering MBL programs has increased by only 350 over the past decade. Today, only one in five credit unions have member business lending programs and aggregate credit union member business loans represent only a fraction of the commercial loan market.

A second factor limiting credit union participation has been SBA policies that, until 2003, limited credit union eligibility to participate in the 7(a) program only to credit unions with geographic or community charters. Since the number of credit unions with community charters still represented a small percent of all credit unions, this severely limited credit union assess to the program. Fortunately, SBA issued a revised legal opinion on February 14, 2003, removing restrictions on the types of credit unions eligible to participate as 7(a) lenders. CUNA applauded the SBA and Administrator Hector Barreto for this important change that now permits all credit unions that are able to meet the SBA's eligibility requirements to participate in the program. Today, as reported by the SBA, over 250 credit unions offer SBA 7(a) loans.

While SBA's 2003 policy change was good news for credit unions, it may prove to be even more important for small businesses. As we understand from the SBA, many small businesses have difficulty obtaining funding through banks or other lenders to start or maintain their businesses, particularly when the small business is seeking a loan of less than $150,000. Given the fact that the average size of credit union member business loans is $166,506, and the average credit union SBA 7(a) loan is $87,600, this is a market that credit unions are well suited to serve. And this is a market that credit unions are eager to serve.

Credit Union Concerns Regarding SBA's 7(a) Loan Program

CUNA is hopeful that credit union participation in the SBA 7(a) program will continue to grow. However, credit unions will have a difficult time increasing participation when faced with the current roadblocks of increased fees and inadequate funding of the SBA's programs.

The decision in 2005 to provide a zero-subsidy for the 7(a) program has dramatically altered the program. While intended to make the program self-sustaining and free from the uncertainties of annual appropriations, the change has prompted SBA to increase the maximum size of 7(a) loans and force borrowers to pay substantially higher fees. As Chairwoman Velazquez noted last year, this has meant additional fees for smaller to mid-sized 7(a) loans ranging from $1,500 to $3,000.

These higher fees, in combination with the paperwork burdens of processing regular 7(a) loans, have discouraged many small to mid-sized credit unions, like Actors Federal Credit Union, from participating in the program. Credit unions currently participating in the program also complain that their members, and even many prior SBA borrowers, are

finding it difficult to accept higher fee 7(a) loans. Many are dismayed to see members who have declined higher-fee 7(a) loans go to private lenders and venture capitalists that offer loans with much lower fees, but at much higher rates and/or other loan stipulations that cost the small business owner much more in the long term.

CUNA strongly supports legislative initiatives that permit the SBA to reduce borrower and lender fees for the 7(a) program to the greatest extent possible. We urge both this Committee and the Appropriations Committee to approve the highest possible FY2008 funding levels for the 7(a) program. Without this funding, the current zero-subsidy approach of the 7(a) program will discourage credit unions from participating in the program and force many participating small lenders out of the program. The result will be a far narrower program that does not adequately meet the needs of America's small business owners.

Initiatives to Encourage Small Lender Participation

CUNA also supports a number of additional proposals to encourage increased participation by credit unions and other smaller lenders in the 7(a) program.

Low-Documentation Loan Program: CUNA urges the Committee to direct the SBA to reinstate the 7(a) low-documentation loan program ("Low-Doc") that the agency terminated in 2005. Following its creation in 1994, the Low-Doc program became one of SBA's most successful programs by reducing the documentation required for smaller loans and streamlining the lending process. Low-Doc made the 7(a) process more cost efficient for lenders to make smaller loans, and also to make smaller numbers of loans. This is extremely important for credit unions, most of which continue to have restricted fields of membership and, thus, are limited in the number of 7(a) loans they can make in any year. Elimination of the Low-Doc program has forced many smaller lenders to leave the program, reduced the numbers of smaller 7(a) loans, and shifted more loans to higher-cost regional and national lenders. CUNA urges the Committee to authorize a new and expanded 7(a) Low-Doc program.

Community Express Loan Program: CUNA also requests that any legislation provide for permanent authorization and expansion of the Community Express loan program. Initiated by SBA as a pilot program in 1999, the Community Express program has operated as a development tool to target 7(a) loan assistance to small businesses located in low- and moderate-income communities, and to individual business owners from underrepresented segments of the population, including women, minorities, and veterans. Borrowers benefit from lower documentation requirements, a streamlined application process and free technical and management assistance. Given the historic mission of credit unions to meet the unique credit needs of individuals and groups not adequately served by other traditional financial institutions, the Community Express program offers a logical vehicle for increasing credit union participation in 7(a) lending. CUNA requests that the Committee not only provide permanent authorization for the Community Express program, but expand the eligible lenders to include community development credit unions and other qualified credit unions that serve underserved areas.

Prequalification Programs for Small Lenders: CUNA urges the Committee to consider innovative ways to further simplify current 7(a) loan documentation and processing requirements for credit unions and other smaller lenders. A possible approach would be to create a specialized prequalification loan program, structured along the lines of SBA's current prequalification programs for minorities, veterans and other target groups, that would permit local technical-assistance intermediaries to prequalify potential borrowers, match them with suitable local lenders, and expedite final approvals. At a minimum, CUNA urges that the current 7(a) Prequalification programs for minorities, veterans and other groups be expanded to encourage broader participation by credit unions and small lenders, and that priority for funding prequalified loans be given to interested and qualified local lenders.

Microloan Program: Many credit unions have extensive experience in making very small loans to members to fund part-time or second businesses. CUNA would urge the Committee to use this expertise by permitting qualified credit unions to serve as non-profit community based intermediaries for purposes of obtaining funding under the Microloan program and making loans to eligible borrowers. At a minimum, credit unions should be able to serve jointly as intermediaries with other non-profit organizations, quasi-governmental agencies or tribal organizations. We further urge that credit unions that qualify as intermediaries be permitted and encouraged to assist all potential microloan borrowers in the local area without regard to the credit union's specific field of membership.

Conclusion

In summary, I want to thank Chairwoman Velazquez and the Committee for providing CUNA with an opportunity to express its supports for adequate funding for the 7(a) program and for reforms to make SBA's important loan programs more accessible to credit unions and other small lenders. CUNA looks forward to working with the Committee to ensure that the 7(a) loan program remains a viable and attractive option for the critically important small business sector of our nation's economy.

STATEMENT

By

The National Association of Development Companies

On

Legislation Regarding
The 504 Loan Guaranty Program

Submitted to the

COMMITTEE ON SMALL BUSINESS
UNITED STATES HOUSE OF REPRESENTATIVES

By

Mr. David Main
President
Horizon Certified Development Company
Cincinnati, Ohio
March 8, 2007

My name is David K. Main, the President of Horizon Certified Development Company (HCDC) located in Cincinnati, Ohio, and a member of the Board of Directors of the National Association of Development Companies (NADCO). I am here to represent NADCO and the more than 260 Certified Development Companies (CDCs) across our country that provide financing to small businesses under the U.S. Small Business Administration (SBA) 504 loan guaranty program.

I would like to thank Chairperson Velázquez, Ranking Minority Member Chabot, and the entire Committee for giving me the opportunity to provide remarks on this important legislation and for your continued support of the SBA 504 loan program and the CDC industry.

The 504 loan program represents a unique public/private partnership, which includes private lenders, the U.S. Small Business Administration, and the more than 260 CDCs who provide much-needed financing that small businesses require for their business expansion and growth. For over 25 years, this national network of CDCs has worked with private lenders, the SBA, and small business concerns in structuring projects, approving and closing loans on behalf of over 94,000 small businesses.

During the first year of the SBA 504 program in 1986, the CDC industry approved 487 loans totaling over $114 million, which leveraged a total of over $287 million in new small business investment. During the most recent fiscal year of 2006, just under 10,000 small businesses received SBA 504 financing totaling over $5.9 billion, which leveraged over $14 billion in new small business investment.

I joined HCDC in 1983, as its first Executive Director/President, when the predecessor to the 504 program, the 503 program was active. Since then HCDC has approved over 828 SBA 503/504 loans totaling $214.8 million, which has leveraged over $537 million in small business investments.

The legislation that the Committee has drafted for the first time in the history of the 504 program would define in statute the specific legislative framework as to how the 504 industry should be best structured and how the 504 program can best operate. The impact of this bill will be historic, and we would like to offer comments on the following dramatic impacts of the legislation.

For the first time, the economic development mission and the value that CDCs bring to small businesses, the SBA, and to the communities we serve would be defined in statute. This legislation recognizes that CDCs do more than merely process 504 loans. In essence, they marshal resources to help small businesses expand and to implement community economic development.

The legislation also recognizes that CDCs should be locally based economic development organizations that are connected to the communities they serve. It is also critically important to the CDC industry that the legislation impose high ethical standards that would prohibit one individual, their immediate family, and affiliates from controlling multiple CDCs, and we hope to continue our work with your Committee on this issue.

This bill also provides an opportunity to allow 504 to do more for companies located in lower income communities, which are disproportionately located in urban core areas and the rural areas of this country, and we hope to continue our work with the Committee in devising the best ways to make this happen.

The bill recognizes that, although historically the SBA Loan Program has experienced a very low default rate, all CDCs should be required to either directly liquidate or contract with third parties to liquidate defaulted loans, in view of decreased liquidation staff within SBA.

We applaud you and this proposed legislation that will set the course for the future, and clearly define the purpose and role of the CDC industry as not-for-profit financial intermediaries that deliver small business programs and services in the best possible way for these businesses and for the economic development of their communities.

Thank you again for your support and I would be pleased to answer any questions about CDCs or the 504 program.

National Association of Federal Credit Unions
3138 10th Street North • Arlington, Virginia • 22201-2149
(703) 522-4770 • (800) 336-4644 • Fax (703) 524-1082

March 7, 2007

The Honorable Nydia Velazquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
2461 Rayburn House Office Building
Washington, DC 20515

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
U.S. House of Representatives
B363 Rayburn House Office Building
Washington, DC 20515

Dear Chairwoman Velazquez and Ranking Member Chabot:

I am writing on behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, to express our support for the Small Business Administration's (SBA) 7(a) loan program.

As leaders on championing efforts to provide access to capital for our nation's small business and entrepreneurs, your roles have been critical in ensuring the success and stability of programs administered by the SBA. NAFCU worked diligently with former SBA Administrator Hector Barreto to make all credit unions eligible to participate in the 7(a) loan program and was pleased to see this come to fruition in February 2003. Today, hundreds of credit unions offer much needed capital to their members so that the dream of owning a small business can be realized, filling a void that has been created as some lenders have left the program. Credit union members all too often are unable to secure 7(a) loans through other lenders and turn to their credit unions to offer them a hand in their small business dream. This has held especially true as credit unions have helped many small businesses in the wake of recent disasters, such as in the Gulf Coast region.

NAFCU is concerned that credit union members will be hardest hit due to the continuation of increased fees coupled with the Administration's ongoing reduction in budget funding requests for 7(a) program. Their loans are often smaller than the average small business loan. The SBA's access to capital programs will undoubtedly suffer, programs vital to credit unions will become more expensive and the result will be less accessibility and capital for small businesses and lenders. NAFCU requests your leadership in adequately funding the SBA 7(a) program so that credit unions can continue to help their members and America's small businesses can continue to flourish and help grow our nation's economy.

We thank you for your attention to this issue. If we can provide you with additional information or answer any questions about how credit unions are helping America's small businesses, please do not hesitate to contact me or NAFCU's Director of Legislative Affairs Brad Thaler at (703) 522-4770.

Sincerely,

B. Dan Berger
Senior Vice President, Government Affairs

cc: Members of the Small Business Committee

E-mail: nafcu@nafcu.org • **Web site:** www.nafcu.org

[DISCUSSION DRAFT]

110TH CONGRESS
1ST SESSION

H. R. _____

To [to be provided]

IN THE HOUSE OF REPRESENTATIVES

M__. _____ introduced the following bill; which was referred to the Committee on _____

A BILL

To [to be provided]

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 "_____ Act".

6 (b) TABLE OF CONTENTS.—The table of contents for
7 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—PLANNING

Sec. 101. Comprehensive disaster response plan.
Sec. 102. Annual disaster simulation exercise.
Sec. 103. Disaster reserve corps.
Sec. 104. Plans to secure additional office space.

Sec. 105. Coordination of disaster assistance programs with FEMA.
Sec. 106. Associate Administrator for Disaster Assistance.

TITLE II—LENDING

Sec. 201. Incidents of National Significance.
Sec. 202. Information tracking and follow-up system.
Sec. 203. Immediate Disaster Assistance program.
Sec. 204. Subsidized deferment period.
Sec. 205. Revised repayment terms.
Sec. 206. Revised disbursement process.
Sec. 207. Revised collateral requirements.
Sec. 208. Enhanced lending authority for private lenders.
Sec. 209. Disaster processing redundancy.
Sec. 210. Grant program.
Sec. 211. Waiver of prohibition on duplication of certain benefits.
Sec. 212. Increase legislative limit.
Sec. 213. Net earnings clauses prohibited.
Sec. 214. Economic injury disaster loans to nonprofits.
Sec. 215. Applicants that will constitute a major source of employment due to changed economic circumstances.

TITLE III—OVERSIGHT

Sec. 301. Reports on disaster assistance.

1 # TITLE I—PLANNING

2 **SEC. 101. COMPREHENSIVE DISASTER RESPONSE PLAN.**

3 The Small Business Act is amended by redesignating
4 section 37 as 99 and by inserting after section 36 the fol-
5 lowing:

6 **"SEC. 37. COMPREHENSIVE DISASTER RESPONSE PLAN.**

7 "(a) PLAN REQUIRED.—The Administrator shall de-
8 velop, implement, and maintain a comprehensive written
9 disaster response plan. The plan shall include the fol-
10 lowing:

11 "(1) For each region of the Administration, a
12 description of the disasters most likely to occur in
13 that region.

1 "(2) For each disaster described under para-
2 graph (1)—
3 "(A) an assessment of the disaster;
4 "(B) an assessment of the demand for Ad-
5 ministration assistance most likely to occur in
6 response to the disaster;
7 "(C) an assessment of the needs of the Ad-
8 ministration, with respect to such resources as
9 information technology, telecommunications,
10 human resources, and office space, to meet the
11 demand referred to in subparagraph (B); and
12 "(D) guidelines pursuant to which the Ad-
13 ministration will coordinate with other Federal
14 agencies and with State and local authorities to
15 best respond to the demand referred to in sub-
16 paragraph (B) and to best use the resources re-
17 ferred to in that subparagraph.
18 "(b) COMPLETION; REVISION.—The first plan re-
19 quired by subsection (a) shall be completed not later than
20 180 days after the date of the enactment of this section.
21 Thereafter, the Administrator shall update the plan on an
22 annual basis and following any incident of national signifi-
23 cance (as declared by the President or his designee).

1 "(c) REPORT.—The Administrator shall include a re-
2 port on the plan whenever the Administrator submits the
3 report required by section 47(a).".

4 **SEC. 102. ANNUAL DISASTER SIMULATION EXERCISE.**

5 The Small Business Act is amended by inserting after
6 section 37 (as added by section 101) the following:

7 **"SEC. 38. ANNUAL DISASTER SIMULATION EXERCISE.**

8 "(a) EXERCISE REQUIRED.—The Administrator shall
9 conduct a disaster simulation exercise at least once each
10 fiscal year. The exercise shall include the participation of,
11 at a minimum, not less than half of the individuals in the
12 disaster reserve corps and shall test, at maximum capac-
13 ity, all of the information technology and telecommuni-
14 cations systems of the Administration that are vital to the
15 activities of the Administration during such a disaster.

16 "(b) REPORT.—The Administrator shall include a re-
17 port on the disaster simulation exercise whenever the Ad-
18 ministration submits the report required by section
19 47(a).".

20 **SEC. 103. DISASTER RESERVE CORPS.**

21 The Small Business Act is amended by inserting after
22 section 38 (as added by section 102) the following:

23 **"SEC. 39. DISASTER RESERVE CORPS.**

24 "(a) CORPS REQUIRED.—The Administrator shall
25 maintain within the Administration a disaster reserve

1 corps, the purpose of which is to perform the functions
2 of the Administration related to disaster response. The
3 corps shall consist of at least 1,000 individuals, each of
4 whom—

5 "(1) does not ordinarily have the duties of a
6 full-time officer or employee of the Administration;
7 but

8 "(2) is able to assume duties related to disaster
9 response when the Administrator so requires.

10 "(b) TRAINING.—The Administrator shall ensure
11 that each individual in the corps receives training each
12 year in one or more functions relating to disaster response.
13 To the maximum extent practicable, the function in which
14 an individual is trained in one year shall be different from
15 the function in which the individual was trained in prior
16 years.

17 "(c) GEOGRAPHIC DISTRIBUTION.—The Adminis-
18 trator shall ensure that not more than 30 percent of the
19 individuals in the corps reside in any one region of the
20 Administration.

21 "(d) REPORT.—The Administrator shall include a re-
22 port on the corps whenever the Administration submits
23 the report required by section 47(a).".

1 **SEC. 104. PLANS TO SECURE ADDITIONAL OFFICE SPACE.**

2 The Small Business Act is amended by inserting after
3 section 39 (as added by section 103) the following:

4 **"SEC. 40. PLANS TO SECURE ADDITIONAL OFFICE SPACE.**

5 "(a) PLANS REQUIRED.—The Administrator shall
6 develop long-term plans to secure additional office space
7 to accommodate an expanded workforce in times of dis-
8 aster.

9 "(b) REPORT.—The Administrator shall include a re-
10 port on the plans whenever the Administration submits
11 the report required by section 47(a).".

12 **SEC. 105. COORDINATION OF DISASTER ASSISTANCE PRO-**
13 **GRAMS WITH FEMA.**

14 The Small Business Act is amended by inserting after
15 section 40 (as added by section 104) the following:

16 **"SEC. 41. COORDINATION OF DISASTER ASSISTANCE PRO-**
17 **GRAMS WITH FEMA.**

18 "(a) COORDINATION REQUIRED.—The Administrator
19 shall ensure that the disaster assistance programs of the
20 Administration are coordinated, to the maximum extent
21 practicable, with the disaster assistance programs of the
22 Federal Emergency Management Agency.

23 "(b) REGULATIONS REQUIRED.—The Administrator,
24 in consultation with the Director of the Federal Emer-
25 gency Management Agency, shall establish regulations to
26 ensure that each application for disaster assistance is sub-

1 mitted as quickly as practicable to the Administration or
2 to the Agency, whichever is appropriate under the cir-
3 cumstances.

4 "(c) COMPLETION; REVISION.—The initial regula-
5 tions shall be completed not later than 270 days after the
6 date of the enactment of this section. Thereafter, the regu-
7 lations shall be revised on an annual basis.

8 "(d) REPORT.—The Administrator shall include a re-
9 port on the regulations whenever the Administration sub-
10 mits the report required by section 47(a).".

11 **SEC. 106. ASSOCIATE ADMINISTRATOR FOR DISASTER AS-**
12 **SISTANCE.**

13 The Small Business Act is amended by inserting after
14 section 41 (as added by section 105) the following:

15 **"SEC. 42. ASSOCIATE ADMINISTRATOR FOR DISASTER AS-**
16 **SISTANCE.**

17 "(a) IN GENERAL.—There is established in the Ad-
18 ministration an Associate Administrator for Disaster As-
19 sistance, appointed by the President by and with the ad-
20 vice and consent of the Senate, from among individuals
21 who have—

22 "(1) proven management ability; and

23 "(2) substantial knowledge in the field of dis-
24 aster readiness and emergency response.

25 "(b) DIRECTOR OF DISASTER PLANNING.—

1 "(1) APPOINTMENT.—There is established in
2 the Administration a Director for Disaster Planning,
3 appointed by the Administrator.
4 "(2) DUTIES.—Subject to the authority, direc-
5 tion, and control of the Associate Administrator for
6 Disaster Assistance, the Director shall—
7 "(A) develop and implement the Adminis-
8 tration's plans for responding to disasters; and
9 "(B) direct the Administration's training
10 exercises with respect to disasters.
11 "(3) COORDINATION.—In carrying out the du-
12 ties under paragraph (2), the Director shall coordi-
13 nate with—
14 "(A) the Associate Administrator for the
15 Office of Disaster Assistance of the Administra-
16 tion;
17 "(B) the Director of the Federal Emer-
18 gency Management Agency; and
19 "(C) other Federal, State, and local dis-
20 aster planning offices, as necessary.
21 "(c) DIRECTOR OF DISASTER LENDING.—
22 "(1) APPOINTMENT.—There is established in
23 the Administration a Director for Disaster Lending,
24 appointed by the Administrator.

1 "(2) DUTIES.—Subject to the authority, direc-
2 tion, and control of the Associate Administrator for
3 Disaster Assistance, the Director shall direct all as-
4 pects of the disaster lending program under section
5 7(b).
6 "(d) RESOURCES.—The Administrator shall ensure
7 that the Associate Administrator for Disaster Assistance,
8 the Director of Disaster Planning, and the Director of
9 Disaster Lending have adequate resources to carry out the
10 duties under this section.".

11 # TITLE II—LENDING

12 **SEC. 201. INCIDENTS OF NATIONAL SIGNIFICANCE.**

13 (a) DISASTER LOANS TO PRIVATE NONPROFIT OR-
14 GANIZATIONS.—Section 7(b)(2) of the Small Business Act
15 (15 U.S.C. 636(b)(2)) is amended—
16 (1) in subparagraph (D) by striking the period
17 at the end and inserting "; or"; and
18 (2) by inserting after subparagraph (D) the fol-
19 lowing:
20 "(E) an incident of national significance,
21 as declared by the President or his designee, in
22 which case assistance under this paragraph may
23 be provided, subject to the other applicable re-
24 quirements of this paragraph, to a private non-
25 profit organization (as that term is defined in

1 section 29(a)(2)) that is located in an area af-
2 fected by the incident of national significance.".
3 (b) MITIGATION LOANS TO SMALL BUSINESS CON-
4 CERNS.—Section 7 of the Small Business Act (15 U.S.C.
5 636) is amended by inserting after subsection (d) the fol-
6 lowing:
7 "(e) DISASTER MITIGATION LOANS.—
8 "(1) AUTHORITY.—The Administrator may
9 make or guarantee a mitigation loan to a small busi-
10 ness concern that receives a loan under section
11 7(b)(1)(A) for the damage or destruction, by reason
12 of an incident of national significance (as declared
13 by the President or his designee), of property owned
14 by the small business concern.
15 "(2) AMOUNT OF LOAN.—The amount of a loan
16 under paragraph (1) shall not exceed 20 percent of
17 the total amount of the cost of the damage or de-
18 struction referred to in paragraph (1). The total
19 amount shall be calculated without regard for any
20 costs for which the small business concern is reim-
21 bursed under any insurance policy or otherwise.".
22 (c) APPLICABILITY FOR FISCAL YEAR 2006 TO HUR-
23 RICANES KATRINA, RITA, AND WILMA.—
24 (1) IN GENERAL.—For fiscal year 2006, the
25 Administrator—

1 (A) may carry out subsection (e) of section
2 7 of the Small Business Act (as added by sub-
3 section (b) of this section) with respect to a pri-
4 vate nonprofit organization that was located, as
5 of August 28, 2005, in a hurricane-affected
6 area; and
7 (B) may carry out such subsection (e) with
8 respect to a small business concern that was lo-
9 cated, as of August 28, 2005, in a hurricane-
10 affected area, for damage or destruction by rea-
11 son of Hurricane Katrina, Hurricane Rita, or
12 Hurricane Wilma.
13 (2) HURRICANE-AFFECTED AREA DEFINED.—In
14 this section, the term "hurricane-affected area"
15 means a county or parish in the State of Alabama,
16 Florida, Mississippi, Louisiana, or Texas, that has
17 been designated by the Administrator of the Small
18 Business Administration as a disaster area by rea-
19 son of Hurricane Katrina, Hurricane Rita, or Hurri-
20 cane Wilma under disaster declaration 10176,
21 10177, 10178, 10179, 10180, 10181, 10203, 10204,
22 10205, 10206, 10222, or 10223.

1 **SEC. 202. INFORMATION TRACKING AND FOLLOW-UP SYS-**
2 **TEM.**

3 The Small Business Act is amended by inserting after
4 section 42 (as added by section 106) the following:

5 **"SEC. 43. INFORMATION TRACKING AND FOLLOW-UP SYS-**
6 **TEM FOR DISASTER ASSISTANCE.**

7 "(a) SYSTEM REQUIRED.—The Administrator shall
8 develop, implement, and maintain a centralized informa-
9 tion system to track communications between personnel
10 of the Administration and applicants for disaster assist-
11 ance. The system shall ensure that whenever an applicant
12 for disaster assistance communicates with such personnel
13 on a matter relating to the application, the following infor-
14 mation is recorded:

15 "(1) The method of communication.

16 "(2) The date of communication.

17 "(3) The identity of the personnel.

18 "(4) A summary of the subject matter of the
19 communication.

20 "(b) FOLLOW-UP REQUIRED.—The Administrator
21 shall ensure that an applicant for disaster assistance re-
22 ceives, by telephone, mail, or electronic mail, follow-up
23 communications from the Administration at all critical
24 stages of the application process, including the following:

1 "(1) When the Administration determines that
2 additional information or documentation is required
3 to process the application.
4 "(2) When the Administration determines
5 whether to approve or deny the loan.
6 "(3) When the primary contact person man-
7 aging the loan application has changed.".

8 **SEC. 203. IMMEDIATE DISASTER ASSISTANCE PROGRAM.**

9 The Small Business Act is amended by inserting after
10 section 43 (as added by section 202) the following:

11 **"SEC. 44. IMMEDIATE DISASTER ASSISTANCE PROGRAM.**

12 "(a) PROGRAM REQUIRED.—The Administrator shall
13 carry out a program, to be known as the Immediate Dis-
14 aster Assistance program, under which the Administration
15 participates on a deferred (guaranteed) basis in 85 per-
16 cent of the balance of the financing outstanding at the
17 time of disbursement of the loan if such balance is less
18 than or equal to $25,000 for businesses affected by a dis-
19 aster.
20 "(b) ELIGIBILITY REQUIREMENT.—To receive a loan
21 guaranteed under subsection (a), the applicant must also
22 apply for, and meet basic eligibility standards for, a loan
23 under section 7(b).
24 "(c) USE OF PROCEEDS.—A person who receives a
25 loan under section 7(b) must use the proceeds of that loan

1 to repay all loans guaranteed under subsection (a), if any,
2 before using the proceeds for any other purpose.
3 "(d) APPROVAL OR DISAPPROVAL.—The Adminis-
4 trator shall ensure that each applicant for a loan under
5 the program receives a decision approving or disapproving
6 of the application within 36 hours after the Administra-
7 tion receives the application.".

8 **SEC. 204. SUBSIDIZED DEFERMENT PERIOD.**

9 Section 7 of the Small Business Act (15 U.S.C. 636)
10 is amended by inserting after subsection (e) (as added by
11 section 201(b)) the following:
12 "(f) ADDITIONAL REQUIREMENTS FOR 7(B)
13 LOANS.—
14 "(1) SUBSIDIZED DEFERMENT AUTHORIZED.—
15 "(A) IN GENERAL.—In making loans
16 under section 7(b), the Administrator may pro-
17 vide, to the person receiving the loan, an option
18 to defer repayment on the loan.
19 "(B) PERIOD.—A deferment under sub-
20 paragraph (A) may not exceed 4 years.".

21 **SEC. 205. REVISED REPAYMENT TERMS.**

22 Section 7 of the Small Business Act (15 U.S.C. 636)
23 is amended in subsection (f) by adding after paragraph
24 (1) (as added by section 204) the following:

1 "(2) REVISED REPAYMENT TERMS.—In making
2 loans under section 7(b), the Administrator—
3 "(A) shall not require repayment to be
4 made until 12 months after the date on which
5 the final disbursement of approved amounts is
6 made; and
7 "(B) shall calculate the amount of repay-
8 ment based solely on the amounts disbursed.".
9 **SEC. 206. REVISED DISBURSEMENT PROCESS.**
10 Section 7 of the Small Business Act (15 U.S.C. 636)
11 is amended in subsection (f) by adding after paragraph
12 (2) (as added by section 205) the following:
13 "(3) REVISED DISBURSEMENT PROCESS.—In
14 making loans under section 7(b), the Administrator
15 shall disburse the loan amounts in stages as follows:
16 "(A) LOANS UP TO $150,000.—If the total
17 amount approved is less than or equal to
18 $150,000—
19 "(i) the first disbursement shall con-
20 sist of 40 percent of the total loan amount,
21 or a lesser percentage of the total loan
22 amount if the Administrator and the bor-
23 rower agree on such a lesser percentage;
24 "(ii) the second disbursement shall
25 consist of 50 percent of the amounts that

1 remain after the first disbursement, and
2 shall be made when the borrower has pro-
3 duced satisfactory receipts to demonstrate
4 the proper use of the first half of the first
5 disbursement; and
6 "(iii) the third disbursement shall
7 consist of the amounts that remain after
8 the preceding disbursements, and shall be
9 made when the borrower has produced sat-
10 isfactory receipts to demonstrate the prop-
11 er use of the first disbursement and the
12 first half of the second disbursement.
13 "(B) LOANS FROM $150,000 TO $500,000.—
14 If the total amount approved is more than
15 $150,000 but less than or equal to $500,000—
16 "(i) the first disbursement shall con-
17 sist of 20 percent of the total loan amount,
18 or a lesser percentage if the Administrator
19 and the borrower agree on such a lesser
20 percentage;
21 "(ii) the second disbursement shall
22 consist of 30 percent of the total loan
23 amount remaining after the first disburse-
24 ment, and shall be made when the bor-
25 rower has produced satisfactory receipts to

1 demonstrate the proper use of the first
2 half of the first disbursement;
3 "(iii) the third disbursement shall
4 consist of 25 percent of the total loan
5 amount remaining after the first and sec-
6 ond disbursements, and shall be made
7 when the borrower has produced satisfac-
8 tory receipts to demonstrate the proper use
9 of the first disbursement and the first half
10 of the second disbursement; and
11 "(iv) the fourth disbursement shall
12 consist of the amounts that remain after
13 the preceding disbursements, and shall be
14 made when the borrower has produced sat-
15 isfactory receipts to demonstrate the prop-
16 er use of the first and second disburse-
17 ments and the first half of the third dis-
18 bursement.
19 "(C) LOANS GREATER THAN $500,000.—If
20 the total amount approved is more than
21 $500,000—
22 "(i) the first disbursement shall con-
23 sist of at least $100,000, or a lesser
24 amount if the Administrator and the bor-
25 rower agree on such a lesser amount; and

1 "(ii) the number of disbursements
2 after the first, and the amount of each
3 such disbursement, shall be in the discre-
4 tion of the Administrator, but the amount
5 of each such disbursement shall be not less
6 than $100,000.".

7 **SEC. 207. REVISED COLLATERAL REQUIREMENTS.**

8 Section 7 of the Small Business Act is amended in
9 subsection (f) by adding after paragraph (3) (as added
10 by section 206) the following:

11 "(4) REVISED COLLATERAL REQUIREMENTS.—
12 In making a business loan under section 7(b), the
13 total approved amount of which is less than or equal
14 to $100,000, the Administrator shall not require the
15 borrower to use the borrower's home as collateral.".

16 **SEC. 208. ENHANCED LENDING AUTHORITY FOR PRIVATE**
17 **LENDERS.**

18 The Small Business Act is amended by inserting after
19 section 44 (as added by section 203) the following:

20 **"SEC. 45. ENHANCED LENDING AUTHORITY FOR PRIVATE**
21 **LENDERS.**

22 "(a) PROGRAM AUTHORIZED.—The Administrator
23 may, and during a period specified in subsection (b) shall,
24 carry out a program under which the Administrator per-
25 mits banks and other financial institutions to process, ap-

1 prove, close, and service disaster loans under section 7(b)
2 for a fee not to exceed 2 percent of the total loan amount.
3 "(b) PERIODS DURING WHICH PROGRAM IS RE-
4 QUIRED.—The program under subsection (a) is required
5 to be carried out during the following periods:
6 "(1) Any period of an incident of national sig-
7 nificance (as declared by the President or his des-
8 ignee).
9 "(2) Any period during which the average time
10 for the Administration to approve disaster loans in
11 response to any single disaster is 30 days or more.
12 "(c) EXCLUSION OF LENDERS.—If the number or
13 rate of defaults on loans processed, approved, and closed
14 by a lender under the program under subsection (a) are
15 inordinate, as determined by the Administrator, the Ad-
16 ministrator may do any one or more of the following:
17 "(1) Exclude the lender from participating in
18 the program under subsection (a).
19 "(2) Exclude the lender from participating in
20 the Preferred Lenders Program under section
21 7(a)(2)(C)(ii).
22 "(d) FACTOR IN PREFERRED LENDERS PROGRAM.—
23 In determining whether a lender is to be certified or recer-
24 tified to participate in the Preferred Lenders Program

1 under section 7(a)(2)(C)(ii), the Administrator may con-
2 sider as a factor the following:
3 "(1) The loans processed, approved, and closed
4 by the lender under the program under subsection
5 (a).
6 "(2) The participation or non-participation of
7 the lender in the program under subsection (a).".

8 **SEC. 209. DISASTER PROCESSING REDUNDANCY.**

9 The Small Business Act is amended by inserting after
10 section 45 (as added by section 208) the following:

11 **"SEC. 46. DISASTER PROCESSING REDUNDANCY.**

12 "(a) IN GENERAL.—The Administrator shall ensure
13 that the Administration has in place a facility for disaster
14 loan processing that, whenever the Administration's pri-
15 mary facility for disaster loan processing becomes unavail-
16 able, is able to take over all disaster loan processing from
17 that primary facility within 2 days.
18 "(b) AUTHORIZATION OF APPROPRIATIONS.—There
19 are authorized to be appropriated to carry out this section
20 such sums as may be necessary.".

21 **SEC. 210. GRANT PROGRAM.**

22 Section 7(b) of the Small Business Act (15 U.S.C.
23 636(b)) is amended by inserting immediately after para-
24 graph (3) the following:

1 "(4) GRANTS TO DISASTER-AFFECTED SMALL
2 BUSINESSES.—
3 "(A) IN GENERAL.—The Administrator
4 may make a grant of up to $100,000 to a small
5 business concern that—
6 "(i) was located in a designated dis-
7 aster area affected by disaster declaration
8 10176, 10177, 10178, 10179, 10180,
9 10181, 10203, 10204, 10205, 10206,
10 10222, or 10233;
11 "(ii) submits to the Administrator a
12 certification by the owner of the concern of
13 intent to reestablish the concern in the
14 State in which the disaster-affected area is
15 located; and
16 "(iii) has applied for, and was rejected
17 for, a conventional disaster assistance loan
18 under section 7(b).
19 "(B) PRIORITY.—In making grants under
20 this paragraph, the Administrator shall give
21 priority to a small business concern that the
22 Administrator determines is economically viable
23 but unable to meet short-term financial obliga-
24 tions.

1 "(C) DEFINITION.—In this paragraph, the
2 term 'disaster-affected area' means an area that
3 has been designated by the Administrator as a
4 disaster area.
5 "(D) AUTHORIZATION OF APPROPRIA-
6 TIONS.—There are authorized to be appro-
7 priated for grants under this paragraph such
8 funds as may be necessary.".

9 **SEC. 211. WAIVER OF PROHIBITION ON DUPLICATION OF**
10 **CERTAIN BENEFITS.**

11 (a) IN GENERAL.—Section 7(b) of the Small Busi-
12 ness Act (15 U.S.C. 636(b)) is amended by inserting im-
13 mediately after paragraph (4) (as added by section 210)
14 the following:
15 "(5) WAIVER OF PROHIBITION ON DUPLICATION
16 OF CERTAIN BENEFITS.—For any major disaster (as
17 that term is defined in section 102 of the Robert T.
18 Stafford Disaster Relief and Emergency Assistance
19 Act (42 U.S.C. 5122)), in providing assistance
20 under paragraph (1) or (2), the Administrator may
21 waive, in whole or in part, the prohibition on the du-
22 plication of benefits, including whether damage or
23 destruction has been compensated for by, credit is
24 available from, activities are reimbursable through,

1 or funds have been made available from any other
2 source.".
3 (b) APPLICABILITY AND RETROACTIVITY FOR VIC-
4 TIMS OF HURRICANES KATRINA, RITA, AND WILMA.—The
5 amendment made by this section shall apply to any assist-
6 ance under section 7(b) of the Small Business Act (15
7 U.S.C. 636(b)) provided on or after August 29, 2005.

8 **SEC. 212. INCREASE LEGISLATIVE LIMIT.**

9 Section 7(b)(3)(E) of the Small Business Act (15
10 U.S.C. 636(b)(3)(E)) is amended by striking
11 "$1,500,000" and inserting "$3,000,000" both places
12 such term appears.

13 **SEC. 213. NET EARNINGS CLAUSES PROHIBITED.**

14 Section 7 of the Small Business Act is amended in
15 subsection (f) by adding after paragraph (4) (as added
16 by section 207) the following:
17 "(5) NET EARNINGS CLAUSES PROHIBITED.—
18 In making loans under section 7(b), the Admini-
19 strator shall not require the borrower to pay any non-
20 amortized amount for the first 5 years after repay-
21 ment begins.".

22 **SEC. 214. ECONOMIC INJURY DISASTER LOANS TO NON-**
23 **PROFITS.**

24 (a) IN GENERAL.—Section 7 of the Small Business
25 Act (15 U.S.C. 636) is amended in subsection (b)(2)—

1 (1) in the matter preceding subparagraph (A)—
2 (A) by inserting after "small business con-
3 cern" the following: ", private nonprofit organi-
4 zation,"; and
5 (B) by inserting after "the concern" the
6 following: ", organization,"; and
7 (2) in subparagraph (D) by inserting after
8 "small business concerns" the following: ", private
9 nonprofit organizations,".
10 (b) CONFORMING AMENDMENT.—Such section is fur-
11 ther amended in subsection (c)(5)(C) by inserting after
12 "business" the following: ", organization,".

13 **SEC. 215. APPLICANTS THAT WILL CONSTITUTE A MAJOR**
14 **SOURCE OF EMPLOYMENT DUE TO CHANGED**
15 **ECONOMIC CIRCUMSTANCES.**

16 Section 7(b)(3)(E) of the Small Business Act (15
17 U.S.C. 636(b)(3)(E)) is amended by inserting after "con-
18 stitutes" the following: ", or will due to changed economic
19 circumstances constitute,".

20 # TITLE III—OVERSIGHT

21 **SEC. 301. REPORTS ON DISASTER ASSISTANCE.**

22 The Small Business Act is amended by inserting after
23 section 46 (as added by section 209) the following:

1 **"SEC. 47. REPORTS ON DISASTER ASSISTANCE.**

2 "(a) ANNUAL REPORT REQUIRED.—Not later than
3 45 days after the end of a fiscal year, the Administrator
4 shall submit to the Committee on Small Business of the
5 Senate and the Committee on Small Business of the
6 House of Representatives a report on the disaster assist-
7 ance operations of the Administration for that fiscal year.
8 The report shall—

9 "(1) specify the number of Administration per-
10 sonnel involved in such operations;

11 "(2) describe any material changes to those op-
12 erations, such as changes to technologies used or to
13 personnel responsibilities;

14 "(3) describe and assess the effectiveness of the
15 Administration in responding to disasters during
16 that fiscal year, including a description of the num-
17 ber and amounts of loans made for damage and for
18 economic injury; and

19 "(4) describe the plans of the Administration
20 for preparing to respond to disasters during the next
21 fiscal year.

22 "(b) INCIDENTS OF NATIONAL SIGNIFICANCE.—Dur-
23 ing the period of an incident of national significance (as
24 declared by the President or his designee), the Adminis-
25 trator shall, on a monthly basis, submit to the committees
26 specified in subsection (a) a report on the disaster assist-

1 ance operations of the Administration with respect to that
2 incident of national significance. The report shall speci-
3 fy—
4 "(1) the number of applications distributed;
5 "(2) the number of applications received;
6 "(3) the average time for the Administration to
7 approve or disapprove an application;
8 "(4) the amount of disaster loans approved;
9 "(5) the average time for initial disbursement
10 of loan proceeds; and
11 "(6) the amount of disaster loan proceeds dis-
12 bursed.".

110TH CONGRESS
1ST SESSION

H. R. 1332

To improve the access to capital programs of the Small Business Administration, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 2007

Ms. BEAN (for herself, Mr. CHABOT, and Ms. VELÁZQUEZ) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To improve the access to capital programs of the Small Business Administration, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 "Small Business Lending Improvements Act of 2007".

6 (b) TABLE OF CONTENTS.—The table of contents for
7 this Act is as follows:

Sec. 1. Short title, table of contents.

TITLE I—7(A) PROGRAM

Sec. 101. Authority for fee contributions.
Sec. 102. Rural Lending Outreach Program.
Sec. 103. Community Express program made permanent.

Sec. 104. Medical Professionals in Designated Shortage Areas Program.
Sec. 105. Increased Veteran Participation Program.
Sec. 106. Alternative size standard.
Sec. 107. Support to regional offices.

TITLE II—504 PROGRAM

Sec. 201. Certified Development Company Economic Development Loan Program.
Sec. 202. Definitions.
Sec. 203. Eligibility of development companies to be designated as certified development companies.
Sec. 204. Definition of rural areas.
Sec. 205. Businesses in low-income areas.
Sec. 206. Combinations of certain goals.
Sec. 207. Refinancing.
Sec. 208. Additional equity injections.
Sec. 209. Loan liquidations.
Sec. 210. Closing costs.
Sec. 211. Maximum 504 and 7(a) loan eligibility.
Sec. 212. Eligibility for energy efficiency projects.
Sec. 213. Loans for plant projects used for energy-efficient purposes.
Sec. 214. Extension of period during which loss reserves of premier certified lenders determined on the basis of outstanding balance of debentures.
Sec. 215. Extension of alternative loss reserve pilot program for certain premier certified lenders.

TITLE I—7(A) PROGRAM

SEC. 101. AUTHORITY FOR FEE CONTRIBUTIONS.

Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended—

(1) in paragraph (18)(A) by striking "shall collect" and inserting "shall assess and collect";

(2) in paragraph (18) by adding at the end the following:

"(C) OFFSET.—The Administrator may, as provided in paragraph (32), offset fees assessed and collected under subparagraph (A).";

(3) in paragraph (23) by striking subparagraph (C) and adding at the end the following:

"(C) OFFSET.—The Administrator may, as provided in paragraph (32), offset fees assessed and collected under subparagraph (A).";

and

(4) by adding at the end the following:

"(32) FEE CONTRIBUTIONS.—

"(A) IN GENERAL.—To the extent that amounts are made available to the Administrator for the purpose of fee contributions, the Administrator shall—

"(i) first consider contributing to fees paid by small business borrowers under clauses (i) through (iii) of paragraph (18)(A), to the maximum extent possible; and

"(ii) then consider contributing to fees paid by small business lenders under paragraph (23)(A).

"(B) QUARTERLY ADJUSTMENT.—Each fee contribution under subparagraph (A) shall be effective for one fiscal quarter and shall be adjusted as necessary for each fiscal quarter thereafter to ensure that the amounts under subparagraph (A) are fully used. The fee contribution for a fiscal quarter shall be based on

the loans that the Administrator projects will be made during that fiscal quarter, given the program level authorized by law for that fiscal year and any other factors that the Administrator considers appropriate.".

SEC. 102. RURAL LENDING OUTREACH PROGRAM.

Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended—

(1) by striking paragraph (25)(C); and

(2) by adding at the end the following:

"(33) RURAL LENDING OUTREACH PROGRAM.—The Administrator shall carry out a rural lending outreach program to provide up to an 85 percent guaranty for loans of $250,000 or less. The program shall be carried out only through lenders located in rural areas (as 'rural' is defined in section 501(f) of the Small Business Investment Act of 1958). For a loan made through the program, the following shall apply:

"(A) The Administrator shall approve or disapprove the loan within 36 hours.

"(B) The program shall use abbreviated application and documentation requirements.

"(C) Minimum credit standards, as the Administrator considers necessary to limit the

1 rate of default on loans made under the pro-
2 gram, shall apply.".

3 **SEC. 103. COMMUNITY EXPRESS PROGRAM MADE PERMA-**
4 **NENT.**

5 (a) IN GENERAL.—Section 7(a) of the Small Busi-
6 ness Act (15 U.S.C. 636(a)) is amended by adding at the
7 end the following:

8 "(34) COMMUNITY EXPRESS PROGRAM.—The
9 Administrator shall carry out a Community Express
10 Program for loans of $250,000 or less. For a loan
11 made under this paragraph, the following shall
12 apply:

13 "(A) The loan shall be made to a business
14 concern—

15 "(i) the majority ownership interest of
16 which is directly held by individuals who
17 are women, minorities, or veterans of the
18 Armed Forces; or

19 "(ii) that is located in a low- or mod-
20 erate-income area, as defined by the Ad-
21 ministrator.

22 "(B) The loan shall comply with the collat-
23 eral policy of the Administration, except that, if
24 the amount of the loan is less than or equal to

1 $25,000, the Administration shall not require
2 the lender to take collateral.
3 "(C) The loan shall include terms requir-
4 ing the lender to ensure that technical assist-
5 ance is provided to the borrower, through the
6 lender or a third-party provider.
7 "(D) The Administration shall approve or
8 disapprove the loan within 36 hours.".
9 (b) NOTICE AND COMMENT.—The program required
10 by section 7(a)(34) of the Small Business Act, as added
11 by subsection (a), shall be established after the oppor-
12 tunity for notice and comment and not later than 180 days
13 after the date of the enactment of this Act.

14 **SEC. 104. MEDICAL PROFESSIONALS IN DESIGNATED**
15 **SHORTAGE AREAS PROGRAM.**

16 (a) IN GENERAL.—Section 7(a) of the Small Busi-
17 ness Act (15 U.S.C. 636(a)) is amended by adding at the
18 end the following:
19 "(35) MEDICAL PROFESSIONALS IN DES-
20 IGNATED SHORTAGE AREAS PROGRAM.—The Admin-
21 istrator shall carry out a Medical Professionals in
22 Designated Shortage Areas Program. For a loan
23 made under this paragraph, the following shall
24 apply:

"(A) The loan shall be made to a business concern that provides properly licensed medical, dental, or psychiatric services to the public.

"(B) The loan shall be for the purpose of opening a business concern in a health professional shortage area (as defined in section 332 of the Public Health Service Act (42 U.S.C. 254e)).

"(C) The loan shall include the participation by the Administration equal to 90 percent of the balance of the financing outstanding at the time of disbursement.

"(D) The fees on the loan under paragraphs (18) and (23) shall be reduced by half.".

(b) NOTICE AND COMMENT.—The program required by section 7(a)(35) of the Small Business Act, as added by subsection (a), shall be established after the opportunity for notice and comment and not later than 180 days after the date of the enactment of this Act.

SEC. 105. INCREASED VETERAN PARTICIPATION PROGRAM.

(a) IN GENERAL.—Section 7(a) of the Small Business Act (15 U.S.C. 636(a)) is amended by adding at the end the following:

"(36) INCREASED VETERAN PARTICIPATION PROGRAM.—The Administrator shall carry out an

1 Increased Veteran Participation Program. For a
2 loan made under this paragraph, the following shall
3 apply:
4 "(A) The loan shall be made to a business
5 concern the majority ownership interest of
6 which is directly held by individuals who are
7 veterans of the Armed Forces.
8 "(B) The loan shall include the participa-
9 tion by the Administration equal to 90 percent
10 of the balance of the financing outstanding at
11 the time of disbursement.
12 "(C) The fees on the loan under para-
13 graphs (18) and (23) shall not apply.".
14 (b) NOTICE AND COMMENT.—The program required
15 by section 7(a)(36) of the Small Business Act, as added
16 by subsection (a), shall be established after the oppor-
17 tunity for notice and comment and not later than 180 days
18 after the date of the enactment of this Act.
19 **SEC. 106. ALTERNATIVE SIZE STANDARD.**
20 (a) IN GENERAL.—Section 3(a) of the Small Busi-
21 ness Act (15 U.S.C. 632(a)) is amended by adding at the
22 end the following:
23 "(4) In addition to any other size standard
24 under this subsection, the Administrator shall estab-
25 lish, and permit a lender making a loan under sec-

1 tion 7(a) and a lender making a loan under the de-
2 velopment company loan program to use, an alter-
3 native size standard. The alternative size standard
4 shall be based on factors including maximum tan-
5 gible net worth and average net income.".

6 (b) APPLICABILITY.—Until the Administrator estab-
7 lishes, under section 3(a)(4) of the Small Business Act
8 (as added by subsection (a)), an alternative size standard
9 in the case of a lender making a loan under section 7(a)
10 of that Act, the alternative size standard in section
11 121.301(b) of title 13, Code of Federal Regulations, shall
12 apply to such a case.

13 **SEC. 107. SUPPORT TO REGIONAL OFFICES.**

14 Section 7(a) of the Small Business Act (15 U.S.C.
15 636(a)) is amended by adding at the end the following:

16 "(37) SUPPORT TO REGIONAL OFFICES.—The
17 Administrator shall carry out a program, within an
18 element of the Administration already in existence
19 as of the date of the enactment of the Small Busi-
20 ness Lending Improvements Act of 2007, to provide
21 support to regional offices of the Administration in
22 assisting small lenders who do not participate in the
23 preferred lender program to participate in the 7(a)
24 program.".

TITLE II—504 PROGRAM

SEC. 201. CERTIFIED DEVELOPMENT COMPANY ECONOMIC DEVELOPMENT LOAN PROGRAM.

Section 504 of the Small Business Investment Act of 1958 (15 U.S.C. 697a) is amended—

(1) by redesignating subsections (a) and (b) as subsections (b) and (c); and

(2) by inserting before subsection (b) (as so redesignated) the following:

"(a) The program to provide financing to small businesses by guarantees of loans under this Act which are funded by debentures guaranteed by the Administration shall be known as the 'Certified Development Company Economic Development Loan Program' or '504 Loan Program'.".

SEC. 202. DEFINITIONS.

Section 103(6) of the Small Business Investment Act of 1958 (15 U.S.C. 662(6)) is amended to read as follows:

"(6) the term 'development company' means an entity incorporated under State law with the authority to promote and assist the growth and development of small-business concerns in the areas in which it is authorized to operate by the Administration, and the term 'certified development company' means a development company which the Adminis-

1 tration has determined meets the criteria of section
2 506;".

3 **SEC. 203. ELIGIBILITY OF DEVELOPMENT COMPANIES TO**
4 **BE DESIGNATED AS CERTIFIED DEVELOP-**
5 **MENT COMPANIES.**

6 Section 506 of the Small Business Investment Act
7 of 1958 (15 U.S.C. 697c) is amended to read as follows:

8 **"SEC. 506. CERTIFIED DEVELOPMENT COMPANIES.**

9 "(a) AUTHORITY TO ISSUE DEBENTURES.—A devel-
10 opment company may issue debentures pursuant to this
11 Act if the Administration certifies that the company meets
12 the following criteria:

13 "(1) SIZE.—The development company is re-
14 quired to be a small concern with fewer than 500
15 employees and not under the control of any entity
16 which does not meet the Administration's size stand-
17 ards as a small business, except that any develop-
18 ment company which was certified by the Adminis-
19 tration prior to December 31, 2005 may continue to
20 issue debentures.

21 "(2) PURPOSE.—The primary purpose of the
22 development company is to benefit the community by
23 fostering economic development to create and pre-
24 serve jobs and stimulate private investment.

1 "(3) PRIMARY FUNCTION.—The primary func-
2 tion of the development company is to accomplish its
3 purpose by providing long term financing to small
4 businesses by the utilization of the 504 Loan Pro-
5 gram. It may also provide or support such other
6 local economic development activities to assist the
7 community.

8 "(4) NON-PROFIT STATUS.—The development
9 company is a non-profit corporation, except that a
10 development company certified by the Administra-
11 tion prior to January 1, 1987, may retain its status
12 as a for-profit corporation.

13 "(5) GOOD STANDING.—The development com-
14 pany is in good standing in its State of incorpora-
15 tion and in any other State in which it conducts
16 business, and is in compliance with all laws, includ-
17 ing taxation requirements, in its State of incorpora-
18 tion and in any other State in which it conducts
19 business.

20 "(6) MEMBERSHIP.—The development company
21 has at least 25 members (or stockholders if the cor-
22 poration is a for-profit entity), none of whom may
23 own or control more than 10 percent of the com-
24 pany's voting membership, consisting of representa-
25 tion from each of the following groups (none of

1 which are in a position to control the development
2 company):
3 "(A) Government organizations that are
4 responsible for economic development.
5 "(B) Financial institutions that provide
6 commercial long term fixed asset financing.
7 "(C) Community organizations that are
8 dedicated to economic development.
9 "(D) Businesses.
10 "(7) BOARD OF DIRECTORS.—The development
11 company has a board of directors that—
12 "(A) is elected from the membership by
13 the members;
14 "(B) represents at least three of the four
15 groups enumerated in subsection (a)(6) and no
16 group is in a position to control the company;
17 and
18 "(C) meets on a regular basis to make pol-
19 icy decisions for such company.
20 "(8) PROFESSIONAL MANAGEMENT AND
21 STAFF.—The development company has full-time
22 professional management, including a chief executive
23 officer to manage daily operations, and a full-time
24 professional staff qualified to market the 504 Pro-
25 gram and handle all aspects of loan approval and

1 servicing, including liquidation, if appropriate. The
2 development company is required to be independ-
3 ently managed and operated to pursue its economic
4 development mission and to employ its chief execu-
5 tive officer directly, with the following exceptions:
6 "(A) A development company may be an
7 affiliate of another local non-profit service cor-
8 poration (specifically excluding another develop-
9 ment company) whose mission is to support
10 economic development in the area in which the
11 development company operates. In such a case:
12 "(i) The development company may
13 satisfy the requirement for full-time pro-
14 fessional staff by contracting with a local
15 non-profit service corporation (or one of its
16 non-profit affiliates), or a governmental or
17 quasi-governmental agency, to provide the
18 required staffing.
19 "(ii) The development company and
20 the local non-profit service corporation may
21 have partially common boards of directors.
22 "(B) A development company in a rural
23 area (as defined in section 501(f)) shall be
24 deemed to have satisfied the requirements of a
25 full-time professional staff and professional

1 management ability if it contracts with another
2 certified development company which has such
3 staff and management ability and which is lo-
4 cated in the same general area to provide such
5 services.
6 "(C) A development company that has
7 been certified by the Administration as of De-
8 cember 31, 2005, and that has contracted with
9 a for-profit company to provide services as of
10 such date may continue to do so.
11 "(b) AREA OF OPERATIONS.—The Administration
12 shall specify the area in which an applicant is certified
13 to provide assistance to small businesses under this title,
14 which may not initially exceed its State of incorporation
15 unless it proposes to operate in a local economic area
16 which is required to include part of its State of incorpora-
17 tion and may include adjacent areas within several States.
18 After a development company has demonstrated its ability
19 to provide assistance in its area of operations, it may re-
20 quest the Administration to be allowed to operate in one
21 or more additional States as a multi-state certified devel-
22 opment company if it satisfies the following criteria:
23 "(1) Each additional State is contiguous to the
24 State of incorporation, except the States of Alaska

1 and Hawaii shall be deemed to be contiguous to any
2 State abutting the Pacific ocean.
3 "(2) It demonstrates its proficiency in making
4 and servicing loans under section 504 by—
5 "(A) requesting and receiving designation
6 as an accredited lender under section 507 or a
7 premier certified lender under section 508; and
8 "(B) meeting or exceeding performance
9 standards established by the Administration.
10 "(3) The development company adds to the
11 membership of its State of incorporation additional
12 membership from each additional State and the
13 added membership meets the requirements of sub-
14 section (a)(6).
15 "(4) The development company adds at least
16 one member to its board of directors in the State of
17 incorporation, providing that added member was se-
18 lected by the membership of the additional State.
19 "(5) The company meets such other criteria or
20 complies with such conditions as the Administration
21 deems appropriate.
22 "(c) PROCESSING OF EXPANSION APPLICATIONS.—
23 The Administration shall respond to the request of a cer-
24 tified development company for certification as a multi-
25 state company on an expedited basis within 30 days of

1 receipt of a completed application if the application dem-
2 onstrates that the development company meets the re-
3 quirements of subsection (b)(1) through (b)(4).

4 "(d) USE OF FUNDS LIMITED TO STATE WHERE
5 GENERATED.—Any funds generated by a development
6 company from making 503 and 504 loans which remain
7 after payment of staff, operating and overhead expenses
8 shall be retained by the development company as a reserve
9 for future operations, for expanding its area of operations
10 in a local economic area as authorized by the Administra-
11 tion, or for investment in other local economic develop-
12 ment activity in the State from which the funds were gen-
13 erated.

14 "(e) ETHICAL REQUIREMENTS.—

15 "(1) IN GENERAL.—Certified development com-
16 panies, their officers, employees and other staff,
17 shall at all times act ethically and avoid activities
18 which constitute a conflict of interest or appear to
19 constitute a conflict of interest. No one may serve as
20 an officer, director or chief executive officer of more
21 than one certified development company.

22 "(2) PROHIBITED CONFLICT IN PROJECT
23 LOANS.—As part of a project under section 504, no
24 certified development company may recommend or
25 approve a guarantee of a debenture by the Adminis-

1 tration that is collateralized by a second lien position
2 on the property being constructed or acquired and
3 also provide, or be affiliated with a corporation or
4 other entity, for-profit or non-profit, which provides,
5 financing collateralized by a first lien on the same
6 property, except that business development compa-
7 nies which were participating as first mortgage lend-
8 ers for the 504 program in fiscal years 2004 or
9 2005 may continue to do so.

10 "(3) OTHER ECONOMIC DEVELOPMENT ACTIVI-
11 TIES.—Operation of multiple programs to assist
12 small business concerns in order for a certified de-
13 velopment company to carry out its economic devel-
14 opment mission shall not be deemed a conflict of in-
15 terest, but notwithstanding any other provision of
16 law, no development company may accept funding
17 from any source, including but not limited to any de-
18 partment or agency of the United States Govern-
19 ment—

20 "(A) if such funding includes any condi-
21 tions, priorities or restrictions upon the types of
22 small businesses to which they may provide fi-
23 nancial assistance under this title; or

24 "(B) if it includes any conditions or im-
25 poses any requirements, directly or indirectly,

upon any recipient of assistance under this title unless the department or agency also provides all of the financial assistance to be delivered by the development company to the small business and such conditions, priorities or restrictions are limited solely to the financial assistance so provided.".

SEC. 204. DEFINITION OF RURAL AREAS.

Section 501 of the Small Business Investment Act of 1958 (15 U.S.C. 695) is amended by adding at the end the following new subsection:

"(f) As used in subsection (d)(3)(D), the term 'rural' shall include any area other than—

"(1) a city or town that has a population greater than 50,000 inhabitants; and

"(2) the urbanized area contiguous and adjacent to such a city or town.".

SEC. 205. BUSINESSES IN LOW-INCOME AREAS.

Section 501(d)(3) of the Small Business Investment Act of 1958 (15 U.S.C. 695(d)(3)) is amended by inserting after "business district revitalization" the following: "or expansion of businesses in low-income communities that would be eligible for new market tax credit investments under section 45D of the Internal Revenue Code of 1986 (26 U.S.C. 45D)".

1 **SEC. 206. COMBINATIONS OF CERTAIN GOALS.**

2 Section 501(e) of the Small Business Investment Act
3 of 1958 (15 U.S.C. 695(e)) is amended by adding at the
4 end the following:

5 "(7) A small business concern that is uncondi-
6 tionally owned by more than one individual, or a cor-
7 poration whose stock is owned by more than one in-
8 dividual, is deemed to achieve a public policy goal
9 under subsection (d)(3) if a combined ownership
10 share of at least 51 percent is held by individuals
11 who are in one of the groups listed as public policy
12 goals specified in subsection (d)(3)(C) or
13 (d)(3)(E).".

14 **SEC. 207. REFINANCING.**

15 Section 502 of the Small Business Investment Act
16 of 1958 (15 U.S.C. 696) is amended by adding at the end
17 the following:

18 "(7) PERMISSIBLE DEBT REFINANCING.—Any
19 financing approved under this title may also include
20 a limited amount of debt refinancing for debt that
21 was not previously guaranteed by the Administra-
22 tion. If the project involves expansion of a small
23 business which has existing indebtedness
24 collateralized by fixed assets, any amount of existing
25 indebtedness that does not exceed one-half of the

1 project cost of the expansion may be refinanced and
2 added to the expansion cost, providing—
3 "(A) the proceeds of the indebtedness were
4 used to acquire land, including a building situ-
5 ated thereon, to construct a building thereon or
6 to purchase equipment;
7 "(B) the borrower has been current on all
8 payments due on the existing debt for at least
9 the past year; and
10 "(C) the 504 financing will provide better
11 terms or rate of interest than now exists on the
12 debt.".

13 **SEC. 208. ADDITIONAL EQUITY INJECTIONS.**

14 Clause (ii) of section 502(3)(B) of the Small Business
15 Investment Act of 1958 (15 U.S.C. 696(3)(B)) is amend-
16 ed to read as follows:
17 "(ii) FUNDING FROM INSTITU-
18 TIONS.—
19 "(I) If a small business concern
20 provides the minimum contribution re-
21 quired under paragraph (C), not less
22 than 50 percent of the total cost of
23 any project financed pursuant to
24 clauses (i), (ii), or (iii) of subpara-
25 graph (C) shall come from the institu-

1 tions described in subclauses (I), (II),
2 and (III) of clause (i).
3 "(II) If a small business concern
4 provides more than the minimum con-
5 tribution required under paragraph
6 (C), any excess contribution may be
7 used to reduce the amount required
8 from the institutions described in sub-
9 clauses (I), (II), and (III) of clause (i)
10 except that the amount from such in-
11 stitutions may not be reduced to an
12 amount less than the amount of the
13 loan made by the Administration.".

14 **SEC. 209. LOAN LIQUIDATIONS.**

15 Section 510 of the Small Business Investment Act
16 of 1958 (15 U.S.C. 697g) is amended—
17 (1) by redesignating subsection (e) as sub-
18 section (g); and
19 (2) by inserting after subsection (d) the fol-
20 lowing:
21 "(e) PARTICIPATION.—
22 "(1) MANDATORY.—Any certified development
23 company which elects not to apply for authority to
24 foreclose and liquidate defaulted loans under this
25 section or which the Administration determines to be

1 ineligible for such authority shall contract with a
2 qualified third-party to perform foreclosure and liq-
3 uidation of defaulted loans in its portfolio. The con-
4 tract shall be contingent upon approval by the Ad-
5 ministration with respect to the qualifications of the
6 contractor and the terms and conditions of liquida-
7 tion activities.

8 "(2) COMMENCEMENT.—The provisions of this
9 subsection shall not require any development com-
10 pany to liquidate defaulted loans until the Adminis-
11 tration has adopted and implemented a program to
12 compensate and reimburse development companies
13 as provided under subsection (f).

14 "(f) COMPENSATION AND REIMBURSEMENT.—

15 "(1) REIMBURSEMENT OF EXPENSES.—The
16 Administration shall reimburse each certified devel-
17 opment company for all expenses paid by such com-
18 pany as part of the foreclosure and liquidation ac-
19 tivities if the expenses—

20 "(A) were approved in advance by the Ad-
21 ministration either specifically or generally; or

22 "(B) were incurred by the company on an
23 emergency basis without Administration prior
24 approval but which were reasonable and appro-
25 priate.

1 "(2) COMPENSATION FOR RESULTS.—The Ad-
2 ministration shall develop a schedule to compensate
3 and provide an incentive to qualified State or local
4 development companies which foreclose and liquidate
5 defaulted loans. The schedule shall be based on a
6 percentage of the net amount recovered but shall not
7 exceed a maximum amount. The schedule shall not
8 apply to any foreclosure which is conducted pursu-
9 ant to a contract between a development company
10 and a qualified third-party to perform the fore-
11 closure and liquidation.".

12 **SEC. 210. CLOSING COSTS.**

13 Paragraph (4) of section 503(b) of the Small Busi-
14 ness Investment Act of 1958 (15 U.S.C. 697(b)) is amend-
15 ed to read as follows:

16 "(4) the aggregate amount of such debenture
17 does not exceed the amount of loans to be made
18 from the proceeds of such debenture plus, at the
19 election of the 504 borrower, other amounts attrib-
20 utable to the administrative and closing costs of
21 such loans, except for the borrower's attorney fees;".

22 **SEC. 211. MAXIMUM 504 AND 7(A) LOAN ELIGIBILITY.**

23 Section 502(2) of the Small Business Investment Act
24 of 1958 (15 U.S.C. 696(2)) is amended by adding at the
25 end the following:

"(C) COMBINATION FINANCING.—Financing under this title may be provided to a borrower in the maximum amount provided in this subsection, plus a loan guarantee under section 7(a) of the Small Business Act may also be provided to the same borrower in the maximum provided in section 7(a)(3)(A) of such Act.".

SEC. 212. ELIGIBILITY FOR ENERGY EFFICIENCY PROJECTS.

Section 501(d)(3) of the Small Business Investment Act of 1958 (15 U.S.C. 695(d)(3)) is amended—

(1) in subparagraph (G) by striking "or" at the end;

(2) in subparagraph (H) by striking the period at the end and inserting ", or"; and

(3) by inserting after subparagraph (H) the following:

"(I) reduction of energy consumption by at least 10 percent.".

SEC. 213. LOANS FOR PLANT PROJECTS USED FOR ENERGY-EFFICIENT PURPOSES.

Section 502(2)(A) of the Small Business Investment Act of 1958 (15 U.S.C. 696(2)(A)) is amended—

(1) in clause (ii) by striking "and" at the end;

(2) in clause (iii) by striking the period at the end and inserting "; and"; and

(3) by adding at the end the following:

"(iv) $4,000,000 for each project that reduces the borrower's energy consumption by at least 10 percent.".

SEC. 214. EXTENSION OF PERIOD DURING WHICH LOSS RESERVES OF PREMIER CERTIFIED LENDERS DETERMINED ON THE BASIS OF OUTSTANDING BALANCE OF DEBENTURES.

Section 508(e)(6)(B) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(e)(6)(B)) is amended by striking "during the 2-year period beginning on the date that is 90 days after the date of the enactment of this subparagraph," and inserting "through the end of fiscal year 2008,".

SEC. 215. EXTENSION OF ALTERNATIVE LOSS RESERVE PILOT PROGRAM FOR CERTAIN PREMIER CERTIFIED LENDERS.

Section 508(e)(7)(J) of the Small Business Investment Act of 1958 (15 U.S.C. 697e(e)(7)(J)) is amended by striking "means" and all that follows through the period at the end and inserting "means each calendar quarter through the end of fiscal year 2008."

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110TH CONGRESS
1ST SESSION

H. R. 1361

To improve the disaster relief programs of the Small Business Administration, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 6, 2007

Ms. VELAZQUEZ (for herself, Mr. BAKER, Mr. JEFFERSON, Mr. TAYLOR, Mr. MELANCON, Mr. GONZALEZ, Mr. GRIJALVA, Mr. LIPINSKI, Ms. MOORE of Wisconsin, Mr. BRALEY of Iowa, and Mr. JOHNSON of Georgia) introduced the following bill; which was referred to the Committee on Small Business

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A BILL

To improve the disaster relief programs of the Small Business Administration, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
5 "Relief for Entrepreneurs: Coordination of Objectives and
6 Values for Effective Recovery Act of 2007" or the "RE-
7 COVER Act".

8 (b) TABLE OF CONTENTS.—The table of contents for
9 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—PLANNING

Sec. 101. Comprehensive disaster response plan.
Sec. 102. Annual disaster simulation exercise.
Sec. 103. Disaster reserve corps.
Sec. 104. Plans to secure additional office space.
Sec. 105. Coordination of disaster assistance programs with FEMA.
Sec. 106. Associate Administrator for Disaster Assistance.

TITLE II—LENDING

Sec. 201. Incidents of National Significance.
Sec. 202. Information tracking and follow-up system.
Sec. 203. Immediate Disaster Assistance program.
Sec. 204. Increased deferment period.
Sec. 205. Revised repayment terms.
Sec. 206. Revised disbursement process.
Sec. 207. Revised collateral requirements.
Sec. 208. Enhanced lending authority for private lenders.
Sec. 209. Disaster processing redundancy.
Sec. 210. Grant program.
Sec. 211. Waiver of prohibition on duplication of certain benefits.
Sec. 212. Increase legislative limit.
Sec. 213. Net earnings clauses prohibited.
Sec. 214. Economic injury disaster loans to nonprofits.
Sec. 215. Applicants that will constitute a major source of employment due to changed economic circumstances.

TITLE III—OVERSIGHT

Sec. 301. Reports on disaster assistance.

TITLE I—PLANNING

SEC. 101. COMPREHENSIVE DISASTER RESPONSE PLAN.

The Small Business Act is amended by redesignating section 37 as 99 and by inserting after section 36 the following:

"SEC. 37. COMPREHENSIVE DISASTER RESPONSE PLAN.

"(a) PLAN REQUIRED.—The Administrator shall develop, implement, and maintain a comprehensive written disaster response plan. The plan shall include the following:

1 "(1) For each region of the Administration, a
2 description of the disasters most likely to occur in
3 that region.
4 "(2) For each disaster described under para-
5 graph (1)—
6 "(A) an assessment of the disaster;
7 "(B) an assessment of the demand for Ad-
8 ministration assistance most likely to occur in
9 response to the disaster;
10 "(C) an assessment of the needs of the Ad-
11 ministration, with respect to such resources as
12 information technology, telecommunications,
13 human resources, and office space, to meet the
14 demand referred to in subparagraph (B); and
15 "(D) guidelines pursuant to which the Ad-
16 ministration will coordinate with other Federal
17 agencies and with State and local authorities to
18 best respond to the demand referred to in sub-
19 paragraph (B) and to best use the resources re-
20 ferred to in that subparagraph.
21 "(b) COMPLETION; REVISION.—The first plan re-
22 quired by subsection (a) shall be completed not later than
23 180 days after the date of the enactment of this section.
24 Thereafter, the Administrator shall update the plan on an

1 annual basis and following any incident of national signifi-
2 cance (as declared by the President or his designee).
3 "(c) REPORT.—The Administrator shall include a re-
4 port on the plan whenever the Administrator submits the
5 report required by section 47(a).".

6 **SEC. 102. ANNUAL DISASTER SIMULATION EXERCISE.**

7 The Small Business Act is amended by inserting after
8 section 37 (as added by section 101) the following:

9 **"SEC. 38. ANNUAL DISASTER SIMULATION EXERCISE.**

10 "(a) EXERCISE REQUIRED.—The Administrator shall
11 conduct a disaster simulation exercise at least once each
12 fiscal year. The exercise shall include the participation of,
13 at a minimum, not less than half of the individuals in the
14 disaster reserve corps and shall test, at maximum capac-
15 ity, all of the information technology and telecommuni-
16 cations systems of the Administration that are vital to the
17 activities of the Administration during such a disaster.
18 "(b) REPORT.—The Administrator shall include a re-
19 port on the disaster simulation exercise whenever the Ad-
20 ministration submits the report required by section
21 47(a).".

22 **SEC. 103. DISASTER RESERVE CORPS.**

23 The Small Business Act is amended by inserting after
24 section 38 (as added by section 102) the following:

1 **"SEC. 39. DISASTER RESERVE CORPS.**

2 "(a) CORPS REQUIRED.—The Administrator shall
3 maintain within the Administration a disaster reserve
4 corps, the purpose of which is to perform the functions
5 of the Administration related to disaster response. The
6 corps shall consist of at least 1,000 individuals, each of
7 whom—

8 "(1) does not ordinarily have the duties of a
9 full-time officer or employee of the Administration;
10 but

11 "(2) is able to assume duties related to disaster
12 response when the Administrator so requires.

13 "(b) TRAINING.—The Administrator shall ensure
14 that each individual in the corps receives training each
15 year in one or more functions relating to disaster response.
16 To the maximum extent practicable, the function in which
17 an individual is trained in one year shall be different from
18 the function in which the individual was trained in prior
19 years.

20 "(c) GEOGRAPHIC DISTRIBUTION.—The Adminis-
21 trator shall ensure that not more than 30 percent of the
22 individuals in the corps reside in any one region of the
23 Administration.

24 "(d) REPORT.—The Administrator shall include a re-
25 port on the corps whenever the Administration submits
26 the report required by section 47(a).".

1 **SEC. 104. PLANS TO SECURE ADDITIONAL OFFICE SPACE.**

2 The Small Business Act is amended by inserting after
3 section 39 (as added by section 103) the following:

4 **"SEC. 40. PLANS TO SECURE ADDITIONAL OFFICE SPACE.**

5 "(a) PLANS REQUIRED.—The Administrator shall
6 develop long-term plans to secure additional office space
7 to accommodate an expanded workforce in times of dis-
8 aster.

9 "(b) REPORT.—The Administrator shall include a re-
10 port on the plans whenever the Administration submits
11 the report required by section 47(a).".

12 **SEC. 105. COORDINATION OF DISASTER ASSISTANCE PRO-**
13 **GRAMS WITH FEMA.**

14 The Small Business Act is amended by inserting after
15 section 40 (as added by section 104) the following:

16 **"SEC. 41. COORDINATION OF DISASTER ASSISTANCE PRO-**
17 **GRAMS WITH FEMA.**

18 "(a) COORDINATION REQUIRED.—The Administrator
19 shall ensure that the disaster assistance programs of the
20 Administration are coordinated, to the maximum extent
21 practicable, with the disaster assistance programs of the
22 Federal Emergency Management Agency.

23 "(b) REGULATIONS REQUIRED.—The Administrator,
24 in consultation with the Director of the Federal Emer-
25 gency Management Agency, shall establish regulations to
26 ensure that each application for disaster assistance is sub-

1 mitted as quickly as practicable to the Administration or
2 directed to the appropriate agency under the cir-
3 cumstances.

4 "(c) COMPLETION; REVISION.—The initial regula-
5 tions shall be completed not later than 270 days after the
6 date of the enactment of this section. Thereafter, the regu-
7 lations shall be revised on an annual basis.

8 "(d) REPORT.—The Administrator shall include a re-
9 port on the regulations whenever the Administration sub-
10 mits the report required by section 47(a).".

11 **SEC. 106. ASSOCIATE ADMINISTRATOR FOR DISASTER AS-**
12 **SISTANCE.**

13 The Small Business Act is amended by inserting after
14 section 41 (as added by section 105) the following:

15 **"SEC. 42. ASSOCIATE ADMINISTRATOR FOR DISASTER AS-**
16 **SISTANCE.**

17 "(a) IN GENERAL.—There is established in the Ad-
18 ministration an Associate Administrator for Disaster As-
19 sistance, appointed by the President by and with the ad-
20 vice and consent of the Senate, from among individuals
21 who have—

22 "(1) proven management ability; and

23 "(2) substantial knowledge in the field of dis-
24 aster readiness and emergency response.

25 "(b) DIRECTOR OF DISASTER PLANNING.—

1 "(1) APPOINTMENT.—There is established in
2 the Administration a Director for Disaster Planning,
3 appointed by the Administrator.
4 "(2) DUTIES.—Subject to the authority, direc-
5 tion, and control of the Associate Administrator for
6 Disaster Assistance, the Director shall—
7 "(A) develop and implement the Adminis-
8 tration's plans for responding to disasters; and
9 "(B) direct the Administration's training
10 exercises with respect to disasters.
11 "(3) COORDINATION.—In carrying out the du-
12 ties under paragraph (2), the Director shall coordi-
13 nate with—
14 "(A) the Associate Administrator for the
15 Office of Disaster Assistance of the Administra-
16 tion;
17 "(B) the Director of the Federal Emer-
18 gency Management Agency; and
19 "(C) other Federal, State, and local dis-
20 aster planning offices, as necessary.
21 "(e) DIRECTOR OF DISASTER LENDING.—
22 "(1) APPOINTMENT.—There is established in
23 the Administration a Director for Disaster Lending,
24 appointed by the Administrator.

"(2) DUTIES.—Subject to the authority, direction, and control of the Associate Administrator for Disaster Assistance, the Director shall direct all aspects of the disaster lending program under section 7(b).

"(d) RESOURCES.—The Administrator shall ensure that the Associate Administrator for Disaster Assistance, the Director of Disaster Planning, and the Director of Disaster Lending have adequate resources to carry out the duties under this section.".

TITLE II—LENDING

SEC. 201. INCIDENTS OF NATIONAL SIGNIFICANCE.

(a) DISASTER LOANS TO PRIVATE NONPROFIT ORGANIZATIONS.—Section 7(b)(2) of the Small Business Act (15 U.S.C. 636(b)(2)) is amended—

(1) in subparagraph (D) by striking the period at the end and inserting "; or"; and

(2) by inserting after subparagraph (D) the following:

"(E) an incident of national significance, as declared by the President or his designee, in which case assistance under this paragraph may be provided, subject to the other applicable requirements of this paragraph, to a private nonprofit organization (as that term is defined in

1 section 29(a)(2)) that is located in an area af-
2 fected by the incident of national significance.".
3 (b) MITIGATION LOANS TO SMALL BUSINESS CON-
4 CERNS.—Section 7 of the Small Business Act (15 U.S.C.
5 636) is amended by inserting after subsection (d) the fol-
6 lowing:
7 "(e) DISASTER MITIGATION LOANS.—
8 "(1) AUTHORITY.—The Administrator may
9 make or guarantee a mitigation loan to a small busi-
10 ness concern that receives a loan under section
11 7(b)(1)(A) for the damage or destruction, by reason
12 of an incident of national significance (as declared
13 by the President or his designee), of property owned
14 by the small business concern.
15 "(2) AMOUNT OF LOAN.—The amount of a loan
16 under paragraph (1) shall not exceed 20 percent of
17 the total amount of the cost of the damage or de-
18 struction referred to in paragraph (1). The total
19 amount shall be calculated without regard for any
20 costs for which the small business concern is reim-
21 bursed under any insurance policy or otherwise.".
22 (c) APPLICABILITY FOR FISCAL YEAR 2006 TO HUR-
23 RICANES KATRINA, RITA, AND WILMA.—
24 (1) IN GENERAL.—For fiscal year 2006, the
25 Administrator—

1 (A) may carry out subsection (e) of section
2 7 of the Small Business Act (as added by sub-
3 section (b) of this section) with respect to a pri-
4 vate nonprofit organization that was located, as
5 of August 28, 2005, in a hurricane-affected
6 area; and
7 (B) may carry out such subsection (e) with
8 respect to a small business concern that was lo-
9 cated, as of August 28, 2005, in a hurricane-
10 affected area, for damage or destruction by rea-
11 son of Hurricane Katrina, Hurricane Rita, or
12 Hurricane Wilma.
13 (2) HURRICANE-AFFECTED AREA DEFINED.—In
14 this section, the term "hurricane-affected area"
15 means a county or parish in the State of Alabama,
16 Florida, Mississippi, Louisiana, or Texas, that has
17 been designated by the Administrator of the Small
18 Business Administration as a disaster area by rea-
19 son of Hurricane Katrina, Hurricane Rita, or Hurri-
20 cane Wilma under disaster declaration 10176,
21 10177, 10178, 10179, 10180, 10181, 10203, 10204,
22 10205, 10206, 10222, or 10223.

1 **SEC. 202. INFORMATION TRACKING AND FOLLOW-UP SYS-**
2 **TEM.**

3 The Small Business Act is amended by inserting after
4 section 42 (as added by section 106) the following:

5 **"SEC. 43. INFORMATION TRACKING AND FOLLOW-UP SYS-**
6 **TEM FOR DISASTER ASSISTANCE.**

7 "(a) SYSTEM REQUIRED.—The Administrator shall
8 develop, implement, and maintain a centralized informa-
9 tion system to track communications between personnel
10 of the Administration and applicants for disaster assist-
11 ance. The system shall ensure that whenever an applicant
12 for disaster assistance communicates with such personnel
13 on a matter relating to the application, the following infor-
14 mation is recorded:

15 "(1) The method of communication.

16 "(2) The date of communication.

17 "(3) The identity of the personnel.

18 "(4) A summary of the subject matter of the
19 communication.

20 "(b) FOLLOW-UP REQUIRED.—The Administrator
21 shall ensure that an applicant for disaster assistance re-
22 ceives, by telephone, mail, or electronic mail, follow-up
23 communications from the Administration at all critical
24 stages of the application process, including the following:

"(1) When the Administration determines that additional information or documentation is required to process the application.

"(2) When the Administration determines whether to approve or deny the loan.

"(3) When the primary contact person managing the loan application has changed.".

SEC. 203. IMMEDIATE DISASTER ASSISTANCE PROGRAM.

The Small Business Act is amended by inserting after section 43 (as added by section 202) the following:

"SEC. 44. IMMEDIATE DISASTER ASSISTANCE PROGRAM.

"(a) PROGRAM REQUIRED.—The Administrator shall carry out a program, to be known as the Immediate Disaster Assistance program, under which the Administration participates on a deferred (guaranteed) basis in 85 percent of the balance of the financing outstanding at the time of disbursement of the loan if such balance is less than or equal to $25,000 for businesses affected by a disaster.

"(b) ELIGIBILITY REQUIREMENT.—To receive a loan guaranteed under subsection (a), the applicant must also apply for, and meet basic eligibility standards for, a loan under section 7(b).

"(c) USE OF PROCEEDS.—A person who receives a loan under section 7(b) must use the proceeds of that loan

1 to repay all loans guaranteed under subsection (a), if any,
2 before using the proceeds for any other purpose.
3 "(d) APPROVAL OR DISAPPROVAL.—The Adminis-
4 trator shall ensure that each applicant for a loan under
5 the program receives a decision approving or disapproving
6 of the application within 36 hours after the Administra-
7 tion receives the application.".

8 **SEC. 204. INCREASED DEFERMENT PERIOD.**

9 Section 7 of the Small Business Act (15 U.S.C. 636)
10 is amended by inserting after subsection (e) (as added by
11 section 201(b)) the following:
12 "(f) ADDITIONAL REQUIREMENTS FOR 7(b)
13 LOANS.—
14 "(1) INCREASED DEFERMENT AUTHORIZED.—
15 "(A) IN GENERAL.—In making loans
16 under section 7(b), the Administrator may pro-
17 vide, to the person receiving the loan, an option
18 to defer repayment on the loan.
19 "(B) PERIOD.—A deferment under sub-
20 paragraph (A) may not exceed 4 years.".

21 **SEC. 205. REVISED REPAYMENT TERMS.**

22 Section 7 of the Small Business Act (15 U.S.C. 636)
23 is amended in subsection (f) by adding after paragraph
24 (1) (as added by section 204) the following:

1 "(2) REVISED REPAYMENT TERMS.—In making
2 loans under section 7(b), the Administrator—
3 "(A) shall not require repayment to be
4 made until 12 months after the date on which
5 the final disbursement of approved amounts is
6 made; and
7 "(B) shall calculate the amount of repay-
8 ment based solely on the amounts disbursed.".
9 **SEC. 206. REVISED DISBURSEMENT PROCESS.**
10 Section 7 of the Small Business Act (15 U.S.C. 636)
11 is amended in subsection (f) by adding after paragraph
12 (2) (as added by section 205) the following:
13 "(3) REVISED DISBURSEMENT PROCESS.—In
14 making loans under section 7(b), the Administrator
15 shall disburse the loan amounts in stages as follows:
16 "(A) LOANS UP TO $150,000.—If the total
17 amount approved is less than or equal to
18 $150,000—
19 "(i) the first disbursement shall con-
20 sist of 40 percent of the total loan amount,
21 or a lesser percentage of the total loan
22 amount if the Administrator and the bor-
23 rower agree on such a lesser percentage;
24 "(ii) the second disbursement shall
25 consist of 50 percent of the amounts that

1 remain after the first disbursement, and
2 shall be made when the borrower has pro-
3 duced satisfactory receipts to demonstrate
4 the proper use of the first half of the first
5 disbursement; and
6 "(iii) the third disbursement shall
7 consist of the amounts that remain after
8 the preceding disbursements, and shall be
9 made when the borrower has produced sat-
10 isfactory receipts to demonstrate the prop-
11 er use of the first disbursement and the
12 first half of the second disbursement.
13 "(B) LOANS FROM $150,000 TO $500,000.—
14 If the total amount approved is more than
15 $150,000 but less than or equal to $500,000—
16 "(i) the first disbursement shall con-
17 sist of 20 percent of the total loan amount,
18 or a lesser percentage if the Administrator
19 and the borrower agree on such a lesser
20 percentage;
21 "(ii) the second disbursement shall
22 consist of 30 percent of the total loan
23 amount remaining after the first disburse-
24 ment, and shall be made when the bor-
25 rower has produced satisfactory receipts to

1 demonstrate the proper use of the first
2 half of the first disbursement;
3 "(iii) the third disbursement shall
4 consist of 25 percent of the total loan
5 amount remaining after the first and sec-
6 ond disbursements, and shall be made
7 when the borrower has produced satisfac-
8 tory receipts to demonstrate the proper use
9 of the first disbursement and the first half
10 of the second disbursement; and
11 "(iv) the fourth disbursement shall
12 consist of the amounts that remain after
13 the preceding disbursements, and shall be
14 made when the borrower has produced sat-
15 isfactory receipts to demonstrate the prop-
16 er use of the first and second disburse-
17 ments and the first half of the third dis-
18 bursement.
19 "(C) LOANS GREATER THAN $500,000.—If
20 the total amount approved is more than
21 $500,000—
22 "(i) the first disbursement shall con-
23 sist of at least $100,000, or a lesser
24 amount if the Administrator and the bor-
25 rower agree on such a lesser amount; and

1 "(ii) the number of disbursements
2 after the first, and the amount of each
3 such disbursement, shall be in the discre-
4 tion of the Administrator, but the amount
5 of each such disbursement shall be not less
6 than $100,000.".

7 **SEC. 207. REVISED COLLATERAL REQUIREMENTS.**

8 Section 7 of the Small Business Act is amended in
9 subsection (f) by adding after paragraph (3) (as added
10 by section 206) the following:

11 "(4) REVISED COLLATERAL REQUIREMENTS.—
12 In making a business loan under section 7(b), the
13 total approved amount of which is less than or equal
14 to $100,000, the Administrator shall not require the
15 borrower to use the borrower's home as collateral.".

16 **SEC. 208. ENHANCED LENDING AUTHORITY FOR PRIVATE**
17 **LENDERS.**

18 The Small Business Act is amended by inserting after
19 section 44 (as added by section 203) the following:

20 **"SEC. 45. ENHANCED LENDING AUTHORITY FOR PRIVATE**
21 **LENDERS.**

22 "(a) PROGRAM AUTHORIZED.—The Administrator
23 may, and during a period specified in subsection (b) shall,
24 carry out a program under which the Administrator per-
25 mits banks and other financial institutions to process, ap-

1 prove, close, and service disaster loans under section 7(b)
2 for a fee not to exceed 2 percent of the total loan amount.
3 "(b) PERIODS DURING WHICH PROGRAM IS RE-
4 QUIRED.—The program under subsection (a) is required
5 to be carried out during the following periods:
6 "(1) Any period of an incident of national sig-
7 nificance (as declared by the President or his des-
8 ignee).
9 "(2) Any period during which the average time
10 for the Administration to approve disaster loans in
11 response to any single disaster is 30 days or more.
12 "(c) EXCLUSION OF LENDERS.—If the number or
13 rate of defaults on loans processed, approved, and closed
14 by a lender under the program under subsection (a) are
15 inordinate, as determined by the Administrator, the Ad-
16 ministrator may do any one or more of the following:
17 "(1) Exclude the lender from participating in
18 the program under subsection (a).
19 "(2) Exclude the lender from participating in
20 the Preferred Lenders Program under section
21 7(a)(2)(C)(ii).
22 "(d) FACTOR IN PREFERRED LENDERS PROGRAM.—
23 In determining whether a lender is to be certified or recer-
24 tified to participate in the Preferred Lenders Program

1 under section 7(a)(2)(C)(ii), the Administrator may con-
2 sider as a factor the following:
3 "(1) The loans processed, approved, and closed
4 by the lender under the program under subsection
5 (a).
6 "(2) The participation or non-participation of
7 the lender in the program under subsection (a).".

8 **SEC. 209. DISASTER PROCESSING REDUNDANCY.**

9 The Small Business Act is amended by inserting after
10 section 45 (as added by section 208) the following:

11 **"SEC. 46. DISASTER PROCESSING REDUNDANCY.**

12 "(a) IN GENERAL.—The Administrator shall ensure
13 that the Administration has in place a facility for disaster
14 loan processing that, whenever the Administration's pri-
15 mary facility for disaster loan processing becomes unavail-
16 able, is able to take over all disaster loan processing from
17 that primary facility within 2 days.
18 "(b) AUTHORIZATION OF APPROPRIATIONS.—There
19 are authorized to be appropriated to carry out this section
20 such sums as may be necessary.".

21 **SEC. 210. GRANT PROGRAM.**

22 Section 7(b) of the Small Business Act (15 U.S.C.
23 636(b)) is amended by inserting immediately after para-
24 graph (3) the following:

1 "(4) GRANTS TO DISASTER-AFFECTED SMALL
2 BUSINESSES.—
3 "(A) IN GENERAL.—The Administrator
4 may make a grant of up to $100,000 to a small
5 business concern that—
6 "(i) was located in a designated dis-
7 aster area affected by disaster declaration
8 10176, 10177, 10178, 10179, 10180,
9 10181, 10203, 10204, 10205, 10206,
10 10222, or 10233;
11 "(ii) submits to the Administrator a
12 certification by the owner of the concern of
13 intent to reestablish the concern in the
14 same county or parish in which the busi-
15 ness was originally located, or in a county
16 or parish contiguous thereto;
17 "(iii) has applied for, and was rejected
18 for, a conventional disaster assistance loan
19 under section 7(b); and
20 "(iv) was in existence for at least 2
21 years before the date on which the applica-
22 ble disaster declaration was made.
23 "(B) PRIORITY.—In making grants under
24 this paragraph, the Administrator shall give
25 priority to a small business concern that the

1 Administrator determines is economically viable
2 but unable to meet short-term financial obliga-
3 tions.
4 "(C) DEFINITION.—In this paragraph, the
5 term 'disaster-affected area' means an area that
6 has been designated by the Administrator as a
7 disaster area.
8 "(D) AUTHORIZATION OF APPROPRIA-
9 TIONS.—There are authorized to be appro-
10 priated for grants under this paragraph such
11 funds as may be necessary.".

12 **SEC. 211. WAIVER OF PROHIBITION ON DUPLICATION OF**
13 **CERTAIN BENEFITS.**

14 (a) IN GENERAL.—Section 7(b) of the Small Busi-
15 ness Act (15 U.S.C. 636(b)) is amended by inserting im-
16 mediately after paragraph (4) (as added by section 210)
17 the following:
18 "(5) WAIVER OF PROHIBITION ON DUPLICATION
19 OF CERTAIN BENEFITS.—For any major disaster (as
20 that term is defined in section 102 of the Robert T.
21 Stafford Disaster Relief and Emergency Assistance
22 Act (42 U.S.C. 5122)), in providing assistance
23 under paragraph (1) or (2), the Administrator may
24 waive, in whole or in part, the prohibition on the du-
25 plication of benefits, including whether damage or

1 destruction has been compensated for by, credit is
2 available from, activities are reimbursable through,
3 or funds have been made available from any other
4 source.".

5 (b) APPLICABILITY AND RETROACTIVITY FOR VIC-
6 TIMS OF HURRICANES KATRINA, RITA, AND WILMA.—The
7 amendment made by this section shall apply to any assist-
8 ance under section 7(b) of the Small Business Act (15
9 U.S.C. 636(b)) provided on or after August 29, 2005.

10 **SEC. 212. INCREASE LEGISLATIVE LIMIT.**

11 Section 7(b)(3)(E) of the Small Business Act (15
12 U.S.C. 636(b)(3)(E)) is amended by striking
13 "$1,500,000" and inserting "$3,000,000" both places
14 such term appears.

15 **SEC. 213. NET EARNINGS CLAUSES PROHIBITED.**

16 Section 7 of the Small Business Act is amended in
17 subsection (f) by adding after paragraph (4) (as added
18 by section 207) the following:

19 "(5) NET EARNINGS CLAUSES PROHIBITED.—
20 In making loans under section 7(b), the Adminis-
21 trator shall not require the borrower to pay any non-
22 amortized amount for the first 5 years after repay-
23 ment begins.".

1 **SEC. 214. ECONOMIC INJURY DISASTER LOANS TO NON-**
2 **PROFITS.**

3 (a) IN GENERAL.—Section 7 of the Small Business
4 Act (15 U.S.C. 636) is amended in subsection (b)(2)—
5 (1) in the matter preceding subparagraph (A)—
6 (A) by inserting after "small business con-
7 cern" the following: ", private nonprofit organi-
8 zation,"; and
9 (B) by inserting after "the concern" the
10 following: ", organization,"; and
11 (2) in subparagraph (D) by inserting after
12 "small business concerns" the following: ", private
13 nonprofit organizations,".

14 (b) CONFORMING AMENDMENT.—Such section is fur-
15 ther amended in subsection (c)(5)(C) by inserting after
16 "business" the following: ", organization,".

17 **SEC. 215. APPLICANTS THAT WILL CONSTITUTE A MAJOR**
18 **SOURCE OF EMPLOYMENT DUE TO CHANGED**
19 **ECONOMIC CIRCUMSTANCES.**

20 Section 7(b)(3)(E) of the Small Business Act (15
21 U.S.C. 636(b)(3)(E)) is amended by inserting after "con-
22 stitutes" the following: ", or will due to changed economic
23 circumstances constitute,".

TITLE III—OVERSIGHT

SEC. 301. REPORTS ON DISASTER ASSISTANCE.

The Small Business Act is amended by inserting after section 46 (as added by section 209) the following:

"SEC. 47. REPORTS ON DISASTER ASSISTANCE.

"(a) ANNUAL REPORT REQUIRED.—Not later than 45 days after the end of a fiscal year, the Administrator shall submit to the Committee on Small Business of the Senate and the Committee on Small Business of the House of Representatives a report on the disaster assistance operations of the Administration for that fiscal year. The report shall—

"(1) specify the number of Administration personnel involved in such operations;

"(2) describe any material changes to those operations, such as changes to technologies used or to personnel responsibilities;

"(3) describe and assess the effectiveness of the Administration in responding to disasters during that fiscal year, including a description of the number and amounts of loans made for damage and for economic injury; and

"(4) describe the plans of the Administration for preparing to respond to disasters during the next fiscal year.

1 "(b) INCIDENTS OF NATIONAL SIGNIFICANCE.—During
2 the period of an incident of national significance (as
3 declared by the President or his designee), the Adminis-
4 trator shall, on a monthly basis, submit to the committees
5 specified in subsection (a) a report on the disaster assist-
6 ance operations of the Administration with respect to that
7 incident of national significance. The report shall speci-
8 fy—
9 "(1) the number of applications distributed;
10 "(2) the number of applications received;
11 "(3) the average time for the Administration to
12 approve or disapprove an application;
13 "(4) the amount of disaster loans approved;
14 "(5) the average time for initial disbursement
15 of loan proceeds; and
16 "(6) the amount of disaster loan proceeds dis-
17 bursed.".

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