

**DISASTER SAVINGS ACCOUNTS:
PROTECTIONS FOR SMALL BUSINESSES
DURING A DISASTER**

HEARING BEFORE THE
SUBCOMMITTEE ON FINANCE AND TAX

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS
SECOND SESSION

HEARING HELD
SEPTEMBER 17, 2008



Small Business Committee Document Number 110-112
Available via the GPO Website: <http://www.access.gpo.gov/congress/house>

U.S. GOVERNMENT PRINTING OFFICE

44-251

WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
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Wednesday, September 17, 2008

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

The Subcommittee met, pursuant to call, at 2:00 p.m., in Room 1539 Longworth House Office Building, Hon. Melissa Bean [chairwoman of the Subcommittee] presiding.

Present: Representatives Bean and Buchanan.

Chairwoman BEAN. The recent onslaughts of hurricanes in the southeast, wildfires in California, and floods in the Midwest have served as stark reminders that natural disasters have the ability to devastate local economies. These catastrophes have wreaked significant fiscal havoc, particularly on America's small businesses. For entrepreneurs with tight profit margins, natural disasters can have very serious financial consequences.

Small businesses are the backbone of our economy, creating over 60 percent of our nation's jobs, and it's important that they are able to stay afloat following a natural disaster. Yet, an estimated 40 to 60 percent of small businesses fail to recover from natural disasters. Today's hearing will examine one potential method of mitigating small business risk.

The first 48 hours following a natural disaster are critical. They determine whether a small business will be able to mitigate losses, or be forced to close their doors. The SBA plays a critical role in this disaster recovery process. SBA's disaster loan program, for example, provides low interest loans and working capital for businesses. This loan plan has been a lifeline for hundreds of thousands of entrepreneurs. By providing the resources necessary for both long and short-term repairs, SBA loans give small businesses the tools they need to get back up and running.

As invaluable as SBA's loans are, some feel that there are occasions when additional assistance is needed, and it would be helpful to have a supplement to SBA's program. In today's hearing, we'll examine the role that Disaster Savings Accounts could play in providing such resources.

Proponents contend that by encouraging small businesses to prepare for future emergencies, Disaster Savings Accounts are a viable means of bridging the gap between disaster and relief. According to advocates, Disaster Savings Accounts could cover both pre-

existing and future disaster-related expenses, as well as preventative measures, such as hurricane-resistant doors or windows.

The SBA already provides entrepreneurs with a number of essential disaster resources. Today we will discuss whether or not those services should be augmented. And, if so, by what means.

I'd like to thank our witnesses for coming here to share your personal experiences and perspective on these issues, look forward to your testimony. And now I'll yield to Ranking Member Buchanan for his opening statement.

[The prepared statement of Chairwoman Bean is included in the appendix at page 18.]

Mr. BUCHANAN. Thank you, Madam Chair. Good afternoon. I want to thank our friends from southwest Florida. It's a region of the country that we deal with these things every year. Growing up in Michigan, you never thought much about hurricanes and these other things, but you had tornadoes. But I appreciate you coming here and being here today.

We want to take the time—I know you've been busy, appreciate you taking the time out of your busy schedules to come before this Subcommittee. I know all of you have traveled a long distance, so we're grateful for that.

I'd like to thank Chairwoman Bean for this opportunity for us to focus on some of these challenges small business face in the wake of natural disasters.

At this very moment, the Gulf Coast region of our country's cleanup following Hurricane Gustas and Ike, and the cost and torment of the damage inflicted has yet to be finally realized.

Let's not fool ourselves into thinking that to recover from these or other natural disasters will be easy, or that every business will escape foreclosure or failure. The hurricanes that have engulfed our nation will undoubtedly lead to a flood of applications of SBA disaster loans, but even this lifeline for many might be too little too late.

Today we meet to discuss ways to bridge that gap, to hear the testimony of those who have actually endured the worst nature has to offer, and to add some of their own thoughts to this discussion. From my personal experience, both as a small business owner in this area, and as a representative of thousands of Florida's small business entrepreneurs that have been devastated by Charley, I believe one of the most practical solutions would be to enable small business owners to plan ahead by investing in a Disaster Savings Account.

I envision these accounts as a rainy day fund administered by the state of the Federal Charter Banks with tax deferred and interest deferred accruals similar to that of health savings account, the 529 qualified education savings account, or 401(k). So when disaster strikes the money will be there for you, not waiting, not wondering, not worrying, because many times people get in and never make it out of the business.

The estimate that I read is 40 to 60 percent of businesses fail after a disaster, so it's a big thing. That's what we were talking about today at lunch, is if you didn't have the support, you wouldn't even be here today. That is completely unacceptable.

Today we can take an important step in empowering small businesses to meet the challenges of the unexpected with confidence. The establishment of a Disaster Savings Account seems to be a common sense mechanism that has numerous advantages, and very few distractions. It's one of those things that when you hear about this, you think about why not, why didn't we do it sooner?

I do want to just say personally, myself having businesses in that area, as you know more than anybody, because a lot of you worked in the Charlotte County area, I was on vacation actually outside of Washington traveling, and I remember that storm Charley coming up in our region. It was a Category 2, I remember, on the Weather Channel. It went to a Category 4 like that. And then it was supposed to go into Tampa, north of Sarasota-Bradenton, and it came right into Charlotte Harbor, where nobody was really as prepared as they needed to be. So these things—and growing up in Michigan, I always thought to myself it hits the shores, but as many of you know, it went all the way up through Arcadia and up to Orlando. It went all the way across the state, so they have a big impact.

So, again, I just want to thank you for the opportunity to come and visit today, and I, Madam Chair, yield back.

[The prepared statement of Mr. Buchanan is included in the appendix at page 20.]

Chairwoman BEAN. Well, I think we're now going to move to testimony from our witnesses. Each of you will have five minutes to deliver prepared statements. The timer begins when the green light is illuminated, and when one minute of time remains, the light will turn yellow, and then the red light will come on when your time is up. And I'll yield back to Mr. Buchanan to introduce and recognize our witnesses.

Mr. BUCHANAN. Thanks. Charlie Brown comes to us from Sarasota Florida. He's also for quite a while in Charlotte County, so he knows that area very well, as well. You're south, maybe, what, 50 miles south of Sarasota or so. But he serves as Chairman and CEO of Insignia Bank. Mr. Brown's previously served as Chairman of Tier II Banks for the Florida Bankers Association. He's been Chairman of the Florida Bankers Education Foundation. He's a frequent speaker on the topic of disaster recovery plans, and we appreciate the opportunity for you to be here today. And I'm excited about having two banks, because I think community banks could have the biggest impact, positive impact to help small business get back on your feet. I know that's been the way you've led in terms of your banks over the years. So thank you, Mr. Brown, for being here today.

**STATEMENT OF CHARLES G. BROWN, CHAIRMAN AND CEO OF
INSIGNIA BANK, SARASOTA, FLORIDA**

Mr. BROWN. First of all, I want to applaud the Committee. I think as Chairwoman Bean mentioned in her opening statement, in these very unusual economic times, but also in unusual times as it pertains to natural disasters, this ought to be something that ought to be first and foremost on our mind.

Secondly, from a tax incentive standpoint, I'm a big believer in using tax incentives to create positive behavior. And especially as

it pertains to things like savings accounts. There's a tremendous multiplier effect that takes place when that money is re-loaned into the community. It's just a positive thing for economic stimulus, not to mention in this case, it would be a fantastic safety net.

Small businesses, I know I'm preaching to the choir here, but I'm just a big fan. I think we all know when we walk into a small business, you see the passion in the eyes of the small business owner, typically resulting in a very positive customer service experience. And when I ask-I have a habit as a banker asking the other customers in that room what do you think about this business? Why do you come here? And it always has something to do with the owner being very involved.

With that HSA, or with the DSA product in mind, though, I think the devil is going to be in the details. And, again, this is part of the process to find out what the initial reaction might be from the business community.

I still believe as a banker our number one challenge with small businesses is funding. You can call it capital, depending on what form it takes, or debt. We all know a lot of businesses use home equity loans to the extent they were still available, and credit cards, but one of the things that I've experienced in the past has been profitability models that will, I guess, entice lenders, whether they be banks or private lenders, to lend to small businesses, and to assist them in situations like this. So, as an aside, I just encourage the Committee to consider things like tax incentives for lenders to small businesses.

We were a large SBA lender, one of the largest in the state back in the early '90s. And back then, we were discussing this today, the funding just flowed very freely by using the SBA program, but there was a tax of source that was put in place to share in some of that revenue. And, sure enough, we closed up all of our loan production offices and pulled out of the program. In fact, Mrs. Mize, who is testifying today, was my successor in that program, did a great job of running it. So, as with anything, I'd encourage you to look at what the profitability would be to the small business, but also to those that might be providing the service.

With something like a DSA, anything that we put in place is going to have to be regulated and monitored. We know that. That is a fact of life. The one issue in the package that I received from the Committee that did a wonderful job, by the way, of outlining what you had in mind here, that concerned me was the reference to HSA, Health Savings Accounts.

I would implore the Committee not to follow the structure of HSAs. If you dig into HSAs a little bit further, you're going to find that the regulatory burden that had been placed on the banks, and I realize there was also a statement in the package that said it would not be on the banking industry, rather, the small business owner. But the HSA regulatory burden has literally shut down many community banks from even getting into the programs. And I think if you were to go do some research in that area, you'd find that across the board.

Again, it's back to that profit motive. When they looked at what the penetration rate of that product might be, versus the regu-

latory, I guess, burden that comes with it, it just didn't make sense any more.

One other aspect I'll mention, and I would encourage you to get a banking regulatory official in here, because if you will, especially in these times right now, imagine an account that has been earmarked for disaster. A disaster, we'll go ahead and use hurricanes because that's what we're talking about, comes through town. The entire group of funding would then be used immediately from the banking system. And my concern there is, and I'm not quite sure what the answer to it is, that it might be considered something a little bit different than your typical deposit. So I think it would be very important for the banking industry to weigh in on that.

The other aspect is this; if 35 percent of the businesses are using business interruption insurance, we need to make sure that this product would penetrate at a much higher level. So I would encourage focus groups and surveys to business owners laying this plan out, and finding out from them how much of them would actually use it.

So, in addition to that, promoting the program, and maybe even the name of the program might be something that would be under consideration. I understand DSA, HSA works in Washington to get bills approved, but it may not be as favorable when it comes to marketing, as I found products with the word "disaster" in them don't typically do as well.

So what do I think the solution is? These are some of the challenges. I believe one of the solutions is the Bridge Loan Program that I saw work exceptionally well in Florida immediately after the hurricane. And the reason it worked well was it was a local program, using local resources through the EDC and local bankers.

I would encourage the Committee to take a look at that program as a beta, if you will, on something that could be rolled up to a federal level. And if you look at the math and the economics that come along with that program, I think you might find that the funding requirement is very minimal, if anything, after all the numbers have been run.

So I know I've taken my time, but I'd be more than happy to help with this process in the future. As a small bank with less than 40 employees, I have great passion for my business, for small business, and most importantly, for our country. So thank you very much.

[The prepared statement of Mr. Brown is included in the appendix at page 23.]

Mr. BUCHANAN. Thank you, Mr. Brown.

Ms. Murphy, I'm excited that you're here, because you represent really small business of America. I know when my experience with the Sarasota Chamber in our area, we had 2,400 businesses, a lot of them, 90 percent were 50 employees or less.

But Ms. Murphy is an owner of a unique gourmet store in Punta Gorda, Florida called Pies & Plates. Cindee has a Bachelor's degree from the University of Florida in Public Relations, and a Marketing Minor, a law degree from the University of Florida. Before opening her business, Cindee practiced law for 12 years, was board certified in two different specialities. Appreciate you coming in and giving

your real world experience about really what happens when you get hit by a storm like Charley.

**STATEMENT OF CYNTHIA MURPHY, OWNER OF THE BUSINESS
"PIES & PLATES", PUNTA GORDA FLORIDA;**

Ms. MURPHY. Thank you. It's been a rough week for much of the U.S., the last couple of weeks, I guess, with Hurricane Fay, Hannah, and Ike, or Gustav, Hannah, and Ike, four hurricanes hitting the U.S., and also heading at some point in time for the State of Florida, not all of them hitting directly, some of them skirting by.

But, Madam Chairwoman, and Members of the Committee, thank you for inviting me to speak here today. My name is Cindee Murphy. My husband, Dennis, and I own a retail store and restaurant in Punta Gorda called Pies & Plates.

On August 13th, 2004, Hurricane Charley devastated our community, and seriously damaged our home and business. Hurricane Charley caught us by surprise, as you mentioned. We expected it to pass miles off shore. It was going to be a Category 2. We were expecting just windy, rainy weather that day. And, of course, it turned into a Category 4 and slammed right into us head-on, devastating our community. Over the next six weeks, Florida would suffer direct hits from Hurricanes Frances, Ivan, and Jean, four major hurricanes in a row.

Damages from the 2004 storms exceeded, I think, \$42 billion. I'm not 100 percent that's the accurate figure, but it's close to that. And since then, Florida has been ravaged by hurricanes Dennis, Wilma, and Fay.

I have to tell you that we were one of the lucky ones. We had windstorm insurance. There were a lot of businesses who didn't. And we were treated pretty fairly by our insurance company, even though it took 90 days before we received our first check, and took many more months to fully settle our claim. Except for the nearly \$15,000 in deductibles, we were pretty much made whole.

What I did not have that I desperately needed immediately after the storm was readily available cash. My business was young. We'd only been open for 16 months, and we had invested most of our savings into it. I had not set up a line of credit at the bank yet, because I hadn't needed one.

My business was damaged, our home was damaged, my mother's home was totally destroyed. I had homeless employees that needed assistance from us. Bills kept arriving in the mailbox even though there was no income flowing into the business. But the Good Lord was looking out for us. About four days after Charley hit, two women from Sun Trust Bank walked into my business and asked me if I wanted to apply for a Florida Small Business Emergency Bridge Loan.

They right then and there sat down with the application, helped me apply, and with just in the matter of maybe 48 hours or so I had a check for \$25,000 in my hand. It was incredible. It was far from what I needed, but it was a good start.

I don't know what we would have done without those funds. I'm not even sure that our business would have survived if we'd wait on insurance proceeds and conventional loans. The funds enabled us to reopen the restaurant part of our business, not the retail

part, but the restaurant part in just 18 days. Coffee therapy was badly needed in Punta Gorda, and we became a gathering spot for people seeking emotional support in our community.

The importance of restoring small businesses like mine quickly after a disaster can't be overstated. Small businesses are the life blood of the community. Not only do we provide needed goods and services, but we also provide employment, and help retain residents in the community. Hurricane Katrina has shown us that when residents are forced to leave a community, recovery is very slow.

So I'm here to tell you that I think Disaster Savings Accounts are a good idea. The concern that I have is that in today's economy, small businesses like mine can't afford to set aside money for a rainy day. Our purse strings are stretched to the limit. For many small business, it's already raining. Until we finish weathering this financial storm, it may be hard for businesses to set aside funds for a disaster that may or may not happen.

That doesn't mean you shouldn't pursue this legislation. Sunnier times are ahead of us, our economy will recover. My only request, as a small business owner, is that you make this legislation user-friendly. Allow me to pay for the installation and removal of storm shutters, even if the storm threatens, and then quietly passes us by. Don't make the use of the funds contingent upon a national or state disaster declaration. Allow me to use the funds to replace food damaged by hurricane outages, to purchase generators and gasoline to run them. Allow me to use my savings account to hire a public adjuster or attorney to negotiate my insurance claim. Let me buy portable hard drives, or pay for off-site digital storage that I can protect my business and financial records. Keep it simple and reasonable.

A good rule of thumb, in my opinion, would be that if it's an expenditure that I would not have made at that time but for the disaster, or the threat of the disaster, the expenditure should be allowed.

Finally, don't make the amount that I can set aside so small that it's not worth bothering with, and don't make it difficult for me to prove my expenses, or require me to complete an onerous amount of paperwork. Remember, I'm a small business. I do my own books. The IRS scares me. Keep it simple.

Thank you for conducting this hearing and listening to the voice of a small business owner. I'd be happy to answer questions.

[The prepared statement of Ms. Murphy is included in the appendix at p. 27.]

Mr. BUCHANAN. Thank you. I think the IRS scares all of us.

Ms. Mize, we've got a unique opportunity, we were talking at lunch, is that you had the opportunity to work with so many businesses after Charley, so I'm interested in what you've got to say. It was interesting today at lunch. But I wanted to mention Ms. Mize is from Punta Gorda. She's Senior Vice President and Senior Credit Officer for Charlotte State Bank, was right in the middle of Charley right after that. She graduated from Florida Southern College, and LSU graduate in banking. She's been an active participant in the community, many community organizations, such as Special Olympics in Charlotte County, the Technical Center, and

served as past President of the Charlotte Chamber of Commerce. Thanks for being here, and I look forward to your testimony.

**STATEMENT OF MARYANN MIZE, SENIOR VICE PRESIDENT
AND SENIOR CREDIT OFFICER FOR CHARLOTTE STATE
BANK, FLORIDA**

Ms. MIZE. Thank you. It's a pleasure.

Dear Members of the Committee, I'm deeply honored to be here to speak on the topic of Disaster Savings Account. This is an especially appropriate discussion in light of the riveting images of Hurricane Ike slamming into Texas over the past weekend.

With that destruction of Hurricane Ike, I am reminded of our own 2004 Hurricane Charley coming through our community with a Category 4. It cut a 10-mile swath of destruction through our community. There were over 16,000 homes in its path, and blue tarps were everywhere, and 13,000 residential roofs needed replacing.

The backdrop of my remarks will be based on the experience in the aftermath of that catastrophic event personally. My remarks will also have the imprint of my active role in three facets of our business community; number one, commercial real estate lender. I've been with a local hometown community bank for 19 years. Number two, Chamber of Commerce involvement as the President of our Charlotte County Chamber of Commerce in the immediate aftermath of the hurricane. And, by the way, I applaud Mr. Buchanan for his efforts with Chambers of Commerce, and the role that they play, important role they play in our business community. And, thirdly, the CCIM designation. I'm a commercial real estate practitioner that has that designation, so you will see the imprint, commercial real estate lender, Chamber, and CCIM designation in my remarks and feedback.

Disaster Savings Accounts are innovative and a good idea. And I offer the following enhancements for the Committee's consideration. And it's just two points; it's, number one, size limitations. The current size limitation at \$15,000 simply seems too low, and it may not be a relevant safety net for the challenges faced by many individuals and businesses.

Another important point about limits, is how to ascertain the balance limits: consider taking into consideration insurance deductibles, percentage of gross sales, or income. These avenues might provide a better benchmark, and provide a more relevant safety net.

How about bench marking annual increases to the limit, and the annual deposits? Right now it's a static limit. Consider bench marking annual increases to both the dollar limit and the annual contributions based on the CPI. This will help insure that the program keeps pace with inflation.

The second point is broadening the program. In addition to small businesses, include individuals, and small real estate investors in commercial real estate. The success of a small business works hand and glove with the owners as individuals, and the landlords of their business.

To illustrate these points, I offer just one of many examples of the complexities in the post-hurricane recovery environment, and

to support those recommendations. Let me tell you the story of Jeff Fehr. Jeff Fehr is a respected local appraiser, owns his own building where his business is located. He's also the owner of a small commercial strip center, and he leases that space to small businesses. The hurricane impacted every facet of his life. His home was uninhabitable, his building where his business was located was uninhabitable, and the commercial strip center was also destroyed.

I'll never forget the first business day after the hurricane, Jeff stopped into the bank to see how we were doing. And after some nice pleasantries, we asked how he was doing, and then we learned the sad truth regarding the scope of his devastating losses. Despite this, Jeff remained focused and outlined his plan to immediately rebuild. And that's exactly what he did, and he did it because he had access to capital, he had set aside reserves.

When I asked Jeff what he thought about DSAs, his immediate response was, "I will be an early adopter, and I will encourage others to do likewise."

Jeff's story illustrates the importance of including individuals and commercial real estate investors in the program. Please, number one, don't forget, human capital is the most important asset of a business. Employees need to have their basic needs met before they can be productive. They also need to recognize the importance of saving for a disaster, or that rainy day, as Mr. Buchanan mentioned.

Don't forget our small commercial real estate investors. Many small businesses are located in leased space. Access to capital for these investors, their DSAs would speed the recovery of their buildings, and de facto will help small businesses recover.

Conclusion. In conclusion, thank you for the honor of letting me share my thoughts. I applaud this Committee for their innovative concept. I support Disaster Savings Accounts. A frequently heard quip in Florida to remind citizens to make the right decision in preparing for a storm is, "Be smart. Be safe", and to that I add save. Having funds set aside for a disaster is critical to individuals and businesses, and Disaster Savings Account is a great way to accomplish that goal. Thank you very much.

[The prepared statement of Ms. Mize is included in the appendix at p. 30.]

Mr. BUCHANAN. Thank you.

We have another young lady that's a successful business. Ms. Grayson is from Bradenton, Florida north of Charlotte. She founded her own company in 1994. Kate has been a consultant in the pharmaceutical and biotechnological industry, specializing in project management, process re-engineering and systems auditing. In response to the needs of her clients and the industry she supports, Kate launched Steelgate, a cryogenic firm in 2001. Kate's previous experience including systems operations management, management consulting. And I appreciate you coming today. And you had mentioned if a storm hit and you lost your electricity, you'd be out of business, and the importance of having something as a backup, so I look forward to your testimony. Thank you. Thanks for coming.

**STATEMENT OF KATE GRAYSON, PRESIDENT AND CEO OF
STEELGATE, INC., LONG ISLAND, NEW YORK.**

Ms. GRAYSON. Good afternoon. My name is Kate Grayson. I am President and CEO of Steelgate, Inc., a cryogenic specimen repository storing frozen specimens, such as blood, on behalf of clients engaged in biomedical research. I founded Steelgate in 2002 in Long Island, New York. And in 2004, we relocated my corporate headquarters to Bradenton, Florida.

I am honored to sit before this distinguished panel today as a representative of Florida's Manatee County small businesses, and appreciate the opportunity to share my insights regarding the proposed Disaster Savings Account.

Given the sensitive nature of my business, and the need to maintain uninterrupted power for specimen preservation, disaster preparedness is a subject with which I have extensive experience. Steelgate was built upon a foundation of system redundancy that is only one part of a dynamic multi-layered business continuity plan. This plan is routinely tested and enhanced, and also subject to a thorough audit by each client looking to store specimens with Steelgate. Such rigorous preparation is what enabled Steelgate to face down the infamous power outage of 2003 that struck the Northeast, Midwest, and parts of Canada, as well as the overactive 2004 hurricane season in Florida that some of my colleagues here have discussed.

But Steelgate is not alone in having to anticipate threats. Every year thousands of businesses throughout the United States face a whole host of natural disasters that include tornadoes, earthquakes, floods, forest fires, mud slides, and every summer for those of us who live and work in Florida, hurricanes.

However, developing and implementing a disaster plan represents a financial investment that too often for a small business can be a burdensome expense that they choose not to incur. The irony being that it might be the one investment that could help insure business continuity should a disaster strike. And it always strikes, as we have seen, from this very active hurricane season.

Despite ongoing efforts to assess the impacts from Hurricanes Gustav, Hannah, and Ike, the 2008 hurricane season only just hit its peak on September 10th, with 74 more days remaining. However, if history is any indication, hundreds of small businesses will have suffered devastating losses from which they may never recover. Such losses affect not only the business owners, but extend to its employees, clients, vendors, not to mention the lost tax revenues that underwrite state, local, and federal programs.

Therefore, I, along with other small businesses applaud this Committee's proactive efforts to launch a program to help mitigate the devastating effects of post-disaster business interruption and closure. A Disaster Savings Account could be the one incentive that motivates small businesses to consider disaster planning.

I know that as a self-funded small business, the potential for a tax deferred or tax-free plan to further enhance my company's disaster planning would be very enticing. It aligns with the entrepreneurial spirit, and get it done attitude embodied by so many small business owners, and could also relieve the government of having to provide greater resources for a post-disaster bailout.

To succeed, the guidelines or regulations of the Disaster Savings Account need to be written in a concise and easily understood way, further encouraging the widest possible adoption. As a small business owner wearing many hats every day, the plan must avoid being overly complex, and offer clear benefits. It should not require a specialist to interpret, nor require an excessive amount of a business owner's time to implement. Additional benefits may derive from insurance company's offering discounted premiums for businesses with Disaster Savings Accounts.

It is clear that establishing a Disaster Savings Account could offer wide-ranging benefits to all those who are affected when disaster strikes.

I'm appreciative of the time you have given me today, and will, as a courtesy to this Committee's time, conclude my testimony. I would, however, make myself available for further questions, either here or at another date. Thank you very much.

[The prepared statement of Ms. Grayson is included in the appendix at page 37.]

Mr. BUCHANAN. Thank you. I yield back, Madam Chair.

Chairwoman BEAN. Thank you for your testimony. I have a couple of questions, and then I'll come back to you.

First, I wanted to talk to Mr. Brown. You talked about the SBA loan programs that you participated in. And then when the fees went up, you essentially closed down the shop, and stopped making those available, which is unfortunate. The Committee on a bipartisan basis has been very supportive of trying to reduce the fees on both borrowers and lenders to encourage building those programs, and making capital more available, because at this time, economically following the credit crunch, the greater necessity to make capital available for our businesses. So I was glad to hear your testimony on that.

But I think it's also interesting that you're here to move beyond that, and say that even though SBA has had disaster assistance loans available since 1953, that we should be considering moving further and extending other options. So I appreciate your comments on that. And I also liked your caution about regulatory burden associated with the HSAs, so that's very helpful testimony.

I also wanted to comment to Ms. Murphy, to hear the positive story that you were able to share about how a local bank came in and brought to your attention what available resources that you were able to utilize, and potentially keep your business alive today to tell us about it.

Sadly, this Committee heard testimony following Katrina from a number of multi-generational businesses who've been around for a long time in New Orleans, and their experience was entirely different than that, and they didn't have access to SBA programs. And we heard a lot about FEMA fallout, and where the agency had fallen short, but we really didn't hear in the media what we heard in testimony in this Committee about how they weren't returned calls to businesses who were seeking loans, because as you indicated, their businesses were literally under water, not just financially. And their employees were out of homes, so I was glad to hear that we have made some progress, and that the response time

was quicker, and there were available resources for you to assist what you're doing.

Really, I didn't have a specific question. I just wanted to tell you that your testimony is very helpful to us, and I'll yield to Ranking Member Buchanan.

Mr. BUCHANAN. Thank you, Madam Chair.

You had mentioned about tax incentives for banks maybe to give these, it keeps the cost for the government maybe down, but you said a lot more money would probably flow out if there were some incentives, especially in times like this where capital is tight, and we've got all these national disasters.

I think about the disaster we've got kind of in New York and the country financially, and then what happened in Houston last week, so both of these are very real. But I just, if you could comment a little bit more on what your thought is on that. Mr. Brown.

Mr. BROWN. Sure. The parallel I was driving to the SBA program that Chairwoman Bean had just referenced, was the fact that the SBA program in the early '90s was driven by the margin of profit. And that's just a fact of the program.

If you correlate that to tax incentives, and some of the tools that were available back then are no longer available, but if you were to correlate that to tax incentives, think, if you will, municipal bonds. When a municipality is issuing a bond, the investor in that bond is able to garner that income, or that interest income tax free, so this is now a tax-adjusted yield, if you will.

If we are looking for a way to increase capital flow to small businesses, I think one of the ways you might be able to do it, and it might be a total or partial tax incentive to whoever the lender might be, to increase the yield on that instrument. So if I were lending to Cindee Murphy's business at 6 percent, but part of that, or all of that interest income to the bank was tax-free, you would end up with a 10 percent yield on it.

Now, lending to small businesses takes an enormous amount of overhead. The truth is, it takes as much time to make a \$50,000 loan as it does a \$500,000 loan, and we're all in the business of managing fixed overhead. So if all of a sudden you can take a business that once yielded 6 percent to the lender, and now it's going to yield 10 percent, a couple of things are going to happen.

First of all, you're going to see lenders flooding into the small business market, especially to get away from some of the commercial real estate market that we're all aware of right now. The second thing going to happen is good old-fashioned competition, and that 6 percent rate that Cindee now gets, it will go down, 5-1/2, 5, because the competition will start to chip away at it.

I think that would be an amazing tool for us to consider in some form. And, again, I certainly don't know what all the math, and what all the implications would be, but I think you have a department for that here in the Office of Management Budget.

Mr. BUCHANAN. Well, part of my thought on that was just simply, is to have the incentives for businesses that are struck by disaster, or banks, not necessarily all over the country. It might not be a bad idea, because there's no liquidity now in the country for a lot of small business, especially as it relates to a disaster area like what happened there.

What's your thinking of what, I guess, two things. One is SBA, we talked about a little bit what Florida did. They had the quick \$25,000, you got in 48 hours. Just as bankers, I guess, either of you, were you able to access, were small businesses able to access any SBA money? Or, if they could, how long would it take? Because, obviously, you can't six months to get the money. What was your experience?

Mr. BROWN. Well, the story that Cindee Murphy just shared was actually the Bridge Loan Program that she was referencing, not the SBA program.

Mr. BUCHANAN. But I'm talking about the SBA program.

Mr. BROWN. Right. The SBA took quite a while to be able to put those funds in place. And, again, I think the difference between the two programs is that the Bridge Loan Program is locally run through EDC, using local lenders. Where if the SBA has to bring in contractual employees to try to now operate in a completely foreign environment. So, again, back to my suggestion; if there is a way, whether it be through the SBA, or through some other entity, to mimic, or to emulate the Bridge Loan Program at an SBA level, I think you will have a home run.

And, again, I don't know that the other states have such a thing, but I know the one in the State of Florida worked amazingly well.

Mr. BUCHANAN. Do you know what the repayment back was to the State of Florida?

Ms. MIZE. I have it.

Mr. BROWN. Maryann does.

Ms. MIZE. Yes, I have those statistics. For Hurricane Charley, we checked with the State of Florida, and the repayment was approximately 96 percent recovery of all those funds that were lent. In Charlotte County, \$4 million was lent, and 96 percent of it was returned.

Getting back to Mr. Brown's comment, that's a pretty good repayment, and those funds were back to help another community that would be stricken with a catastrophe.

Mr. BUCHANAN. When they put the funds out, what did they pay, what was the interest on the loan?

Ms. MIZE. Zero.

Mr. BUCHANAN. Zero?

Ms. MIZE. Zero percent for the first six months. It was a very effective tool. The delivery system was our small community banks with the EDC, setting up a little nucleus kind of like a SWAT team, where we would actually—there was no phones, imagine no phones, no electricity. How do we find the other lenders in the community? We knocked on their door, we know where they lived. And so we got feet on the street delivering the information to business owners like Cindee Murphy so that they could have immediate access to capital. Within 48 hours of application, we were meeting as a team in the dark with no electricity, with no air conditioning in that heat, and delivering checks, approving loans, and delivering checks to small businesses.

Mr. BROWN. You had banks fighting over wanting to be involved in this, because they wanted to do something for the community. And I can guarantee you were getting some of the best lenders'

minds around that table in the dark, so it was quite a positive experience.

Mr. BUCHANAN. What happens after the six months, interest only for six months, and then what happens the next six months?

Ms. MURPHY. Well, that was one of the things that was good about it. I mean, the two ladies who came and explained the whole program to me were very emphatic about this being a short-term solution, and then I would need to take further steps, because after six months, I think the interest rate went up to about 12 percent. And if you still had that loan after a year, it would be 18 percent. And, of course, then they made themselves available in case we needed to apply for SBA loans, or conventional loans. And really, I paid mine back before I got to the point where we were reaching the six month point, but I suspect that if I had not, that they would have been in contact with me again, reminding me that I needed to take action on that. And that's part of it being sort of handled on a localized level.

Mr. BUCHANAN. Ms. Murphy, what do you think, if you wouldn't have got the \$25,000, what would have happened?

Ms. MURPHY. Well, I'm not sure that we would have stayed in business. It took so long for us to get our insurance money, and the funds that we did have, we had only been opened for business for 16 months when the storm hit. And a lot of our savings had been tied up in the business. We had so many other competing needs among family members and things, it was really hard to take money that we needed to live and protect our family, and pile it back into the business. So, for us, it was critical, and it was critical to be able to open really, really quickly, because it developed a synergy that kept us going, and kind of moved us forward.

We needed a fairly significant amount; that \$25,000 was absolutely a minimum of what we needed to sort of kick-start our business, so that we could then be ready when season hits, and prepared to continue our business.

Mr. BUCHANAN. And you mentioned the insurance business. What was your experience about getting money when you filed your claim from the insurance company? How long did it take?

Ms. MURPHY. Well, I think I was really one of the lucky ones, compared to others in the community, because we did have a check within 90 days. It took probably another four or five months after that. As a result of Hurricane Charley, there were so many businesses and individuals who were not getting claims quickly, I think that new legislation was passed at that time that now makes it so that the insurance company has to respond within, I don't know if it's a 60-day or 90-day period, so that's been put in place. At that time, that was not there, and there were some businesses and individuals who were going a year, 18 months before they were getting any satisfaction from insurance companies.

But it takes a while to process a claim, and in the event of a hurricane, my insurance adjuster showed up at my door with a stack of photocopies of the front of 200 policies. He was brought in from another state. I think he was from Missouri. That's all he was provided with from the company, was just that page one had my address and my policy limits, and had to process 200 claims.

It was overwhelming to them, and a lot of the ability to get funds back quickly depended on the ability of the business owner to recover records. And that was difficult for a lot of Charlotte County businesses, because they didn't expect the storm to hit. They weren't as prepared as they should have been. So it does take a while.

Mr. BUCHANAN. Ms. Mize, I was going to ask you, following Hurricane Charley, in your estimate, how long did it take the community or businesses to get back to some sense of normalcy? What was the experience in the community? How long did—and some businesses probably never came back. But the businesses that did, was it a week, a month, six weeks, six months? How long was it? I'm sure it was a little different, because you dealt with, my understanding, a lot of businesses in that community right after that.

Ms. MIZE. Yes, we did. There were 700 commercial buildings in the path of the hurricane. Of those 700 commercial buildings, 12 percent of them were destroyed, 77 were damaged, so the recovery is going to be directly in relationship to whether or not they had a building to be in, or whether they could find another building in order to relocate and re-establish. So based upon that, I would say that Cindee was actually probably one of the more exceptional folks in terms of her ability to get back up and running within 18 days.

What we were told was there's three parts to a disaster. First it's relief, then it's recovery, and then it's rebuild. And right now, we're in year four of a five-year plan.

Mr. BUCHANAN. So you guys are still working on it. What do you find from small businesses is their biggest concern, or their number one issue in terms of working with banks to get back on their feet?

Ms. MIZE. I think access to capital is a real serious issue. And I'm going to defer also to the other banker on our panel here, Mr. Brown. Access to capital is critical for the small business, and for the individuals, because of all the myriad of demands on that limited capital in a disaster. You're trying to put your house back in order, you're trying to put your business back in order. Access to capital.

Those folks that had liquidity did the best. What do you think?

Mr. BROWN. Absolutely, I would agree.

Mr. BUCHANAN. That's why we're looking at one possibility, is to have—I know that small businesses are being taxed, and don't have any excess capital, a lot of them are not even able to pay their bills. But the thought is, is that as these things get turned around back on their feet, maybe they'd have a fund where they could draw down, but have something set aside. Because I've always heard, and people told me like 30 years ago, always try to have one-year's living expenses. Now, that doesn't happen with a lot of people, but have some kind of reserve set aside. If we could do that on a tax deferred or something, would give some opportunity.

Kate, I just wanted to ask you, your business is obviously a little different, unique than a lot of businesses in our area. How does this—what's your thoughts on how this would affect you if you had a direct hit in a hurricane, that type of thing?

Ms. GRAYSON. Well, hopefully, with all our preparedness, and our testing, and our enhancements that we do on a regular basis, we won't be that much affected. But I see it also affecting the vendors

that support me, the smaller businesses that are not in the business of doing disaster preparedness, and detailed plans, and testing the plans.

I have a number of local vendors that I use, everything from my air conditioner vendor, to my freezer maintenance, my generator maintenance. The list is very long, and I use all local small businesses to support me. Where we would run fine; however, the services that I depend on, the local vendors would be—I'd be creative to find alternate solutions. So this, I think, could encourage them to just think of the recovery disaster plan, and take more time to put money aside where they might not have.

As part of my plan, I have to take that into consideration, and make sure I do have additional working capital. It could help me with adding better, or doing different planning if I had additional tax-free funds available to me. So I think in two parts it could help.

Mr. BUCHANAN. Is there anything else based on what you've heard today that we could make it better? What do you think about this? I'm open to any idea, but I like kind of what the state is doing, what the state did. It seemed like it was a very successful program. Maybe there's a lot of partnerships federal and state has, and maybe that also can be a partnership. And maybe instead of \$25,000, you said proportionality, maybe if a business has got 83 employees, it's different than having eight, that maybe they can get up to 250, or something like that, because they need more capital.

But my thought is, is that, Charlie, do you have

Mr. BROWN. I did have a thought on that for you. The SBA has done a good job of what is considered a small business by industry. You can start there, because that's based on sales, typically.

The other thing that you can do when you devise these limits is there's a margin of profit, the RMA, Robert Morris & Associates tracks by industry. And you just made me think about it, when you talked about a year's worth of reserve. You might target by industry 90-days worth of operating expenses. And you might end up with something where this type of business would be eligible for that much in dollar, for a different dollar amount across the business. Mathematically, you could work your way back into this very easily, using data that's already available.

Mr. BUCHANAN. Yes.

Ms. GRAYSON. I was just going to add to that, that I think it is very important to assess the need, and how you'll measure that is key because my business and how I operate, and the amount of funds I would need to get going, I mean, to replace a generator, or to carry certain operating costs, would be significantly larger than a smaller restaurant, or something like that. And if you went, I think, by industry, or somehow to measure, I think that's very important in the analysis. And also keeping it simple, that some of the panel members has made. If it takes too much to put in place, I'm not going to have the time to do it, unless it's a good benefit.

Mr. BUCHANAN. Just on my behalf, I just want to thank all of you for coming in. It's important. I know that as we look towards what's happened in New York and our country and the financial crisis, I mean, we're talking about it's like a dumbbell, a barbell, one side we've got a lot of big businesses under a lot of pressure, but our small businesses that make up a lot of the job creation, and

really our vitality in this country, and I think the future, the way we compete with China and India, we've got to find a way with these big storms. I mean, going into Houston, God only knows. I mean, our community is a little bit smaller, but you look at a metro area, New Orleans, and Houston. We've got to figure out a way to get these people back on their feet.

So, again, I appreciate. I like the idea, the government got paid 96 percent back or whatever that percentage was. And I know the Chairwoman, we both want to find a way to help businesses get back on their feet, help them recover quicker. And I think the federal government has definitely a role to play. And the sooner we can get you back to work, and start generating money, then we get more receipts up here, so it's a good thing. It's a win-win for everybody.

But, again, I want to thank you, especially being from our area, our district, for coming in, and appreciate your discussion. And I know you've taken time out of your schedule. So thanks, and we'll look forward to visiting with you a little more in the future. Thanks.

Chairwoman BEAN. I want to thank you, as well, for not only sharing your perspective, but speaking on behalf of all the small businesses out there who could experience the same type of challenges you faced.

I ask unanimous consent that members will have five days to submit statements and supporting materials for the record. Without objection, so ordered. This hearing is now adjourned.

[Whereupon, at 2:57 p.m., the Committee was adjourned.]

MELISSA L. BEAN, ILLINOIS
CHAIRWOMAN

DEAN HELLER, NEVADA
RANKING MINORITY MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business
Subcommittee on Finance and Tax
2361 Rayburn House Office Building
Washington, DC 20515-6515

STATEMENT

of the

The Honorable Melissa Bean, Chairwoman
Subcommittee on Finance and Tax
"Disaster Savings Accounts: Protections for Small Businesses During a Disaster"
Wednesday, September 17, 2008

The recent onslaughts of Hurricanes in the southeast, wildfires in California and floods in the Midwest have served as stark reminders that natural disasters have the ability to devastate local economies. These catastrophes have wreaked significant fiscal havoc, particularly on America's small businesses. For entrepreneurs with tight profit margins, natural disasters can have very serious financial consequences.

Small businesses are the backbone of our economy, creating over 60 percent of our nation's jobs, and it is important that they be able to stay afloat following a natural disaster. Yet, an estimated 40 to 60 percent of small businesses fail to recover from natural disasters. Today's hearing will examine one potential method of mitigating small business risk.

The first 48 hours following a natural disaster are critical. They determine whether a small business will be able to mitigate losses, or be forced to close its doors. The Small Business Administration plays a critical role in this disaster recovery process. SBA's disaster loan program, for example, provides low interest loans and working capital for businesses. This loan plan has been a lifeline for hundreds of thousands of entrepreneurs. By providing the resources necessary for both long and short term repairs, SBA loans give small businesses the tools they need to get back up and running.

As invaluable as SBA's loans are, some feel that there are occasions when additional assistance is needed and it would be helpful to have a supplement to SBA's programs. In today's hearing, we will examine the role that Disaster Savings Accounts can play in providing these resources.

Proponents contend that by encouraging small businesses to prepare for future emergencies, Disaster Savings Accounts are a viable means of bridging the gap between disaster and relief. According to advocates, Disaster Savings Accounts could cover both

pre-existing and future disaster-related expenses, as well as preventative measures, such as hurricane resistant doors or windows.

The SBA already provides entrepreneurs with a number of essential disaster resources. Today, we will discuss whether or not those services should be augmented and, if so, by what means. I'd like to thank our witnesses for coming here to share their experience and perspective on these issues, and look forward to your testimony.

Opening Statement

Ranking Member Vern Buchanan
House Committee on Small Business
Subcommittee on Finance and Tax

Hearing: "Disaster Savings Accounts: Protections for Small
Businesses During a Disaster."
September 17, 2008

Good afternoon. Thank you all for being here today. I appreciate our witnesses taking time out of their undoubtedly busy schedules to testify before this subcommittee. I know all of you traveled some distance to be here...we're very grateful.

I'd also like to thank Chairwoman Bean for focusing attention on the challenges small business face in the wake of a natural disaster. At this very moment, the Gulf coast region of our country is cleaning up following Hurricanes Gustav and Ike and the cost and torment of the damage inflicted has yet to be fully realized.

Let's not fool ourselves into thinking that recovery from these or other natural disasters will be easy or that every business will escape foreclosure or failure. The hurricanes that have engulfed our nation will undoubtedly lead to a flood of applications for SBA

disaster loans...but even this lifeline for many might be too little, too late.

Today we meet to discuss ways to bridge that gap. . .to hear the testimony of those who have actually endured the worst that nature has to offer and to add our own thoughts to this discussion. From my personal experience, both as an owner of a small business and as a representative of thousands of Florida entrepreneurs devastated by Hurricane Charley, I believe one of the most practical solutions would be to enable small business owners to plan ahead by investing in a disaster savings account. I envision these accounts as a rainy day fund administered by a state or federally chartered bank with all taxes deferred and interest accrued similar to that of a Health Savings Account, a 529 Qualified Education Savings Account, or a 401K. So when disaster strikes the money will be there for you...no waiting, no wondering, no worrying.

Following a natural disaster, local small business involvement is critical to economic recovery. Without significant economic recovery, an area will never return to its pre-disaster status. Having a tax advantaged saving account that they can

draw upon immediately ensures that local businesses will hire members of the community to perform the work associated with response and rebuilding.

It is estimated that 40-60% of businesses fail to recover following a disaster. This is unacceptable. Today we can take an important step in empowering small business to challenge the unexpected with confidence. The establishment of disaster savings accounts seems to be a common sense mechanism that has numerous advantages and very few, if any detractions. It is one of those ideas that, when you hear about it, you think "Why didn't somebody think of this sooner?" Well, I believe this is an issue whose time has come.

Again, I want to sincerely thank Chairwoman Bean for holding this hearing. I look forward to the testimony and I yield back the balance of my time.

Testimony for:
 U.S. House of Representatives Committee on Small Business, Subcommittee on Finance
 and Tax on:

Disaster Savings Accounts: Protections for Small Businesses During a Disaster
By: Charles G. Brown III, Chairman and C.E.O., Insignia Bank, Sarasota, FL

First, I must applaud the committee's efforts for considering this type of strategy to aid small businesses in these unusual times as it relates to the economy and to natural disasters as well. I firmly believe that the use of tax strategies can be a very important tool to either encourage or discourage a certain type of activity. But, more importantly, if used correctly, can produce a multiplier effect that is truly better for all.

If one thinks about it, the effect of a small business is felt throughout a community both economically and culturally. It starts when you walk in the door of a small business and you feel the passion of the owner which typically results in superior service. So many times, I am in a small business, and as a banker I have a habit of asking other customers what they think of that particular business. Typically I hear such as "this is the kind of business I like to work with, where the owner is here and cares." Likewise, I speak with so many business owners who say "only in America can we run our own businesses and start them from the ground up."

However, as with any good intention, the "devil is always in the details" and we must always consider the unintentional consequences. In this case, I still believe that Capital is the most significant challenge for small businesses. Capital is King on Wall Street, as we have seen recently seen in the news, but it should be on Main Street as well. While we are all aware that small businesses are often forced to substitute debt for capital in the form of credit cards or Home Equity Loans, I would encourage the committee to continue to make access to capital or even debt with favorable and appropriate repayment terms a priority.

I realize that providing capital directly to a small business is not what tax dollars should be used for as it can be very limiting. However, providing tax incentives to any lender, whether a bank or not, to make small business loans, lines of credit or even Disaster Lines of Credit could be beneficial. For example, in the early 90's, my bank was one of the largest SBA lenders in the state of Florida, mostly due to a profitability model that made it well worth the effort of the bank to do so. Over the years, the profitability was chipped away by a tax of sorts, to share the revenue to a point where it was no longer advantageous to make such loans and our bank, along with others pulled out of this type of business. This is just one great example of when a profit incentive is in place, these dollars will be deployed, but when removed, it is highly likely that such a program will change or decrease substantially.

Additionally, any program involving the Federal Government will require regulation and monitoring. A notation in the package I received explaining this program mentions that the DSA program might be structured in a way similar to "Health Savings Accounts." I implore you to reconsider this structure as I believe HSAs are a perfect example of how

not to handle this challenge. While the material I received also said that the small business owner, not the financial institution would be required to maintain documentation, we also all know what happens as a bill or program is being formulated and what appears to be small changes are made in the process of committee. HSAs for example are not offered by many local community banks or some larger banks due to the cost versus revenue model simply not working. Certainly, there are some bank balances that have been created in the industry for these accounts, but many banks do not feel they can earn enough revenue on these balances to offset the internal cost of running the program and the legal and regulatory risk that comes with it. These costs of course include the opportunity cost of using staff time and energy from considering other programs. Hard costs include disclosures, applications, monitoring programs, yearly reporting, and training. Additionally, technology involving Debit Card access, which is something the committee should think about for the DSA program, also involves additional operational risk of loss to a bank. So, I beg the committee to keep this one simple because placing the monitoring and compliance burden on banks for an HSA type of program, is surely a way to kill the program before it even gets started.

Even if the compliance burden is not shifted to the banks, there will still be a cost to the government and ultimately the taxpayer for regulating, monitoring and promoting such a program. So, with that in mind it will be important for the committee to do a cost versus benefit analysis the same as my business would when deciding whether or not to offer a banking product. Obviously, the revenue part would require some expertise that would look at the financial impact a business provides when it is saved from disaster, or up and operating sooner. While I know when done incorrectly, this process often results in what some call "fuzzy math" but it is still something that should be considered in the process.

The cost of the program and projections, along with accountability for those projections regarding the execution and continued management of this program are imperative. All too often, I see programs introduced that seem like a good thing to do on the surface, but the "devil in the details" exposes it as a large net loss to the U.S. tax payer only after many of years of operation.

So, with this consideration in mind, I suggest that the committee approach this the way they would have in their own private businesses, which I am sure many of you may have run. First, we must determine the market penetration of such a product. Obviously, this hearing today is one of those first steps. But, if according to the National Association of Insurance Commissioners, only 35% of the business owners today with less than 100 employees have business interruption insurance, then why would we think the adoption of a DSA would be any higher or at a level that would support a net benefit to our communities, and ultimately the U.S. taxpayer. Surveys and focus groups could be used to ask questions like "if you chose to accept a role as a Beta Business for this product, how much would you invest this year and next." My fear is that most would like to contribute to such a program, but they just don't have the excess funds to do so.

Secondly, and as I mentioned earlier, the total dollar of investment to monitor and regulate such a program must be determined up front. The question of what is the

investment by the U.S. Taxpayer, and what is the expected benefit from this program must be answered.

Using the old business strategy many of us learned in college of Product, Placement, Promotion and Pricing this program could be adequately structured.

In this case, we obviously need to define the product, a step which the committee seems to be fairly far down the road on. But then, the Placement of such a product must be considered next. Meaning, exactly who gets to use it, when and where, is also important. Again, the committee seems to have already gotten a jump start on this process.

However, Promotion will be an important key as well. Not unlike Ready.Gov which is still being promoted and I was fortunate enough to kick off with then Secretary of Homeland Security Tom Ridge, this program would need to be looked at from a message standpoint. Possibly even the name might be changed to help in the promotion as opposed to a name that helps get the bill passed. I have found most folks don't like things with the word "Disaster" in them or acronyms that too closely mimic other programs which may be the case with DSAs and HSAs.

Last is the Pricing or cost of funding for the business owner versus financial benefit. Keeping in mind, that one might find many businesses opting to keep their cash and invest it in current income potential producing projects as they appear to have done with Business Interruption Insurance. In that case, the investment in the premium comes back to the business owner in a much larger multiple than even tax free contributions with tax free earnings most likely could. Yet, it is still used by a small minority of businesses. Yes, it could be a product design issue for the insurance industry, but my educated guess is that it is still a function of a lack of capital and funding.

So, what would I do since I have brought up a lot of challenges without a hard solution?

Well, as I mentioned in my opening statement, I still think this is an issue of capital versus debt, or available funding as the case may be. The state of Florida during Hurricane Charley ran what appeared to me to be a very effective program for the community. Oddly enough, in the material I received prior to this meeting, the case for DSAs described it in part as "Bridging the Gap." The loan program in the state of Florida that worked so well was in fact called a "Bridge Loan Program." Yes, it was a loan, and not the business owner's funds, but the execution was nothing short of amazing. It was run at the state level, but distributed down to a very local level using local resources such as the Economic Development Council and local bank lenders to sit on a volunteer loan committee. I saw real business owners saved through this process and banks that wanted to not only help their community but also receive the recognition of being involved. Again, the cost versus the revenue worked and the bureaucracy was kept to an absolute minimum due to the local representation. I would highly suggest that the committee look very hard at such a program, using the "Bridge Loan Process" in Florida as a template and either develop a way the U.S. Taxpayer could leverage this type of a program for the betterment of our country, or encourage other states to do the same.

If I could be of any further assistance to this committee or to Congress on this issue, I would welcome the opportunity, because as a small bank with less than 40 employees, I too have a passion for my business, for small businesses and for this country. So, if we are going to do something here, I would like to see us do it right. Thank You.

Statement of Cindee Murphy of Pies & Plates at the U.S. House of Representatives Committee on Small Business hearing titled "Disaster Savings Accounts: Protections for Small Businesses During a Disaster" on September 17, 2008.

Madam Chairwoman and members of the committee thank you for inviting me to speak to you today. My name is Cindee Murphy. My husband, Dennis and I are the owners of a small retail store and restaurant in Punta Gorda, Florida called Pies & Plates.

On Friday the 13th of August 2004 Hurricane Charlie caught me and the rest of Charlotte County off guard. We were closely watching the storm in the Gulf of Mexico but it was only a category 2 and it was expected to hit Tampa 100 miles to our north. Punta Gorda had not been hit or even seriously threatened by a hurricane for 44 years. It has been 10 years since Hurricane Andrew had hit south Florida. People moved to Punta Gorda because it seemed "safe" from a hurricane stand point. According to weather forecasts Punta Gorda could expect rainy windy weather that day but was not expected to be in harms way. The storm would pass far off shore. Very few businesses boarded up. Very few homeowners owned hurricane shutters. Few if any evacuated.

So when Hurricane Charlie grew from a category 2 hurricane to a very strong category 4 in just two hours we were surprised. When it suddenly made a 90 degree turn and slammed head on into our community we were shocked and the damage was extensive. Tight mean tiny little Hurricane Charlie tore kitty corner across the state of Florida exiting on the east coast as a category 1. It caused wide spread damage thru out the state. Within the next six weeks Florida would suffer three more direct hits from Hurricanes Frances, Ivan and Jeanne, two category three storms and one category two. Damages from these storms exceeded 42 billion dollars. Since then Florida has been visited by Hurricanes Dennis & Wilma and this year by Hurricane Fay.

When I was invited to speak at this hearing on this issue, the first thought that came to my mind was "If I had had the opportunity to set aside money in a disaster savings account before Hurricane Charlie would I have done so. The answer is no. At that time, I didn't even feel it was necessary to have hurricane shutters at my home. Would I want to set aside money in a disaster savings account now? Definitely yes! In Florida today, we take storm threats very seriously.

I have to tell you, we were one of the lucky ones. We had wind insurance. And, we were treated fairly by our insurance company although it was 90 days before we received the first check and took many more months to fully settle our claim. Except for the nearly \$15,000 in deductibles we were made whole.

What I did not have that I desperately needed immediately after the storm was readily available cash. My business was young and we had invested most of our savings into it. I had not set up a line of credit at the bank because I hadn't needed one yet. My business was damaged, our home was damaged, my brother's home was damaged, my mother's home was totally destroyed, and I had homeless employees that needed assistance. The cost of materials and repair services had sky rocketed if you could get them at all. Bills kept arriving in my mail box even though there was no income flowing into my business.

But, the good Lord was looking out for us. About 4 days after Charlie hit two women from Sun Trust Bank walked into my business and asked me if I wanted to apply for Florida's Small Business Emergency Bridge Loan. I had no idea such a loan was available nor did I know that the SBA

offered disaster loans. These women helped me fill out the loan application. Within a few days I had a check for \$25,000 in my hand. Within about 4 weeks, over \$3.9 million dollars in bridge loans were made available to 196 businesses in Charlotte County. We used the entire amount allocated by the State of Florida.

I don't know what we would have done without these funds. I'm not even sure that my business would have survived. The funds enabled us to reopen the restaurant part of our business in record time.

The importance of small businesses like mine re-opening quickly after a disaster can not be overstated. Small businesses are the life blood of a community. Not only do we offer needed goods and services but we also provide employment and help retain residents in the community. Hurricane Katrina has shown us that when residents are forced to leave a community recovery stalls.

So I'm here to tell you that I think your allowing me to set aside pre-tax dollars in a disaster savings account is a good idea. It would encourage me to do so and I encourage you to pursue this legislation.

The concern that I have is that in today's economy small businesses like mine just can't afford to set aside money for a rainy day...we feel it's pouring already. My savings will have to wait for sunnier times.

My only request is that you make this legislation user friendly.

Allow me to use the disaster savings account to purchase storm shutters and to take other measure to mitigate the effects of a disaster. Allow me to pay for the delivery, installation and removal of the shutters even if the storm threatens and then passes me by. Don't make the use of the funds contingent upon a national or state disaster declaration. Allow me to use the funds to pay for storage of my shutters. Allow me to use the funds to replace food that I have to throw out after a power outage. Let me use it to purchase a generator and to pay for gasoline to run it. Allow me to use it to hire a public adjustor or attorney to negotiate my insurance claims. Allow me to purchase tools and materials needed to protect and repair my business. Allow me to use it to protect my data and financial records. If its an expenditure that I would not have made at that time BUT FOR the disaster or the threat of the disaster the expenditure should be allowed. Finally, don't make the amount I can set aside so small that it's not worth bothering with. And, don't make it difficult for me to prove my expenses or require me to complete an onerous amount of paper work. Don't attach so many strings that I avoid using the account for fear of an IRS audit.

Thank you for conducting this hearing and for listening to and considering the thoughts of this small business owner.

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Cindee Murphy is the owner of a unique gourmet store and eatery in Punta Gorda, Florida called Pies & Plates. Cindee has a bachelor's degree from the University of Florida in Public Relations with a marketing minor and a law degree from the University of Florida. Before opening her business, Cindee practiced law for twelve years and is board certified in two specialties.

Cindee let her entrepreneurial spirit take flight in 2003 when she left the practice of law to open Pies & Plates. In just five years, her little gourmet shop has grown and evolved and now includes a popular eatery, a catering business and a meal prep business. In 2005, Pies & Plates was awarded the prestigious Retail Leadership – Special Achievement Award from Gourmet News, a national trade publication. In 2007 Pies & Plates was named Business of the Year by both the Punta Gorda Chamber of Commerce and the Charlotte County Chamber of Commerce. These accolades were received in large part because of the support and dedication that Cindee and her husband Dennis have shown to their community and industry.

**House Committee on Small Business
Subcommittee on Finance and Tax**

“Disaster Savings Accounts: Protections for Small Businesses During a Disaster”

September 17, 2008

Statement by

Maryann Mize
Charlotte State Bank, Port Charlotte, FL

Dear members of the committee, I am deeply honored to be here and speak to the topic of Disaster Savings Accounts. This is an especially appropriate topic in light of the freshly riveting images of Hurricane Ike’s path of devastation over the past several days.

With that destruction, I am reminded of our Charlotte County, Florida 2004 experience with category four, Hurricane Charley. Our beautiful, waterfront Southwest Florida community experienced a direct hit.

Hurricane Charley cut a 10 mile swath through our community. Of the approximately 700 commercial buildings in its path, 12% were destroyed, 77% were damaged, and only 10% went unscathed.

In terms of homes, there were 16,000 homes in the path of impact. Of those homes, 15% were destroyed, 74% were damaged and only 9% were undamaged. Blue tarps were everywhere, and approximately 13,000 residential roofs needed replacing.

The backdrop of my remarks will be based on the experiences in the aftermath of that catastrophic event.

My remarks will also have the imprint of my active role in three facets of our business community:

1. Commercial Real Estate Lender: I have been with a local hometown community bank, Charlotte State Bank, for 19 years. My area of expertise is Commercial Real Estate Lending. As a hometown banker, we were actively engaged in many facets of the relief, recovery and rebuilding in the post hurricane environment.

As an aside, our bank had a disaster recovery plan, and thanks to excellent, dedicated leadership and staff, the disaster plan worked. Our Bank was open the day after the hurricane providing needed services to our customers and our community.

2. Chamber of Commerce: As the 2005 president of the Charlotte County Chamber of Commerce I served our business community in the aftermath of the hurricane. Our Chamber has an 83 year legacy, with 1300 members representing 14,000 employees.

Additionally in 2005 it was named the Chamber of the Year by the Florida Chamber of Commerce.

Furthermore, our Chamber is accredited by the U. S. Chamber of Commerce and has the distinction of four stars.

As an aside, I commend Congressman Buchanan in his many roles within Chamber's of Commerce, including past leadership with the State of Florida's Chamber of Commerce.

I am very proud of the leadership role that the Charlotte County Chamber of Commerce took in the aftermath of Hurricane Charley and the advocacy that we performed for our community on a local, state and national level.

3. CCIM designation: As a longtime commercial real estate practitioner, I hold the Certified Commercial Investment Member designation, and am an active member and instructor in this 19,500 member organization.

In summary, in addition to being a 19 year resident of Charlotte County, Florida, you will see the imprint of being a commercial lender at a community bank, Chamber President and the CCIM designation in my remarks.

Going back to Friday, August 13, 2004, at 4:30pm, I recall looking out over our devastated community from my 5th floor place of refuge.

The devastation was clear from my vantage point. Houses were destroyed or damaged. Businesses had their plate glass windows shattered. Power lines strewn like tinkler toys across the streets. Schools were destroyed, including a High School, Middle School and three elementary schools. There was no electricity, running water or phones.

I knew that our lives and our community were going to be very different from that point on.

In light of this devastation, what would be our priorities? They can be best categorized with two words: People, and then things. Relief and Rescue efforts went first to people, then to the property.

People were our first priority: family, friends and coworkers – were they ok? Did they have shelter, food, water?

“People” were also the first priority of our bank, and at the Chamber of Commerce.

Isn't the welfare of our family, friends and co workers the most valuable component of our lives?

Rescue and relief efforts, for both people and their property (homes and businesses) required both manpower and funds to accomplish.

Once the immediate needs were cared for, the next phase began: Recovery and rebuilding. This process could not effectively begin without access to capital.

While access to capital during the rescue and relief phase was important, it appeared that many of our residents had access to either a credit card, their liquidity, and/or relied on the excellent response of FEMA, the Salvation Army, the Red Cross and other non-profit or governmental entities.

As noted earlier, our bank was open for business the day after the hurricane. That first day after hurricane provided us with an immediate realization that access to capital was going to be a critical component to the recovery and rebuilding of our community.

That realization was to be re-confirmed over the coming weeks and months.

In the first two weeks after the hurricane life was very primitive: no running water, phones, electricity or cell phones. I clearly recall our Chamber executive director Julie Mathis, and her staff going door to door delivering critical information for businesses about the availability of Bridge Loans, an excellent source of capital that was available after the storm. Julie recalled that duct tape was an effective tool in posting the information sheets on the doors, windows or stoops of businesses, if the business owner wasn't on site.

To summarize the first line of funding for small businesses and individuals in the immediate aftermath (rescue and relief phase) came primarily from three sources:

1. Grant money: The Chamber, United Way, and other non-profits banded together and had access to grant money. One of the primary businesses targeted for assistance were small home based day care facilities. Day care facilities were a critical need since businesses could not adequately staff themselves without a safe environment for their employee's children.
2. Bridge Loans: Bridge Loans are funded from the State of Florida and are short term, interest free loans made available to business owners in the immediate aftermath of an emergency. The maximum loan amount is \$25,000 and with the help of our Chamber, the Charlotte County Office of Economic Development and local banks (including ours), we were able to approve and fund \$3.6 Million in loans to 196 Charlotte County businesses! These funds were approved and

funded within 3 to 4 weeks after the event. To date, the repayment rate for these loans made in our county is 96.7%.

3. Liquidity/personal resources: Many individuals and business owners used their personal and business savings to pay for the endless expenses that go along with the relief and recovery effort after a catastrophic event. However in many cases, these funds were in short supply and soon gone.

As the need for rescue and relief efforts waned, the focus turned to recovery and rebuilding. The key component to both individuals and businesses at that time was securing their property, debris removal, and determining if or how they could be restored to normalcy. Another key component was access to capital.

At this recovery and rebuild stage, the three typical methods for access to capital were: insurance proceeds, SBA loans, and conventional bank loans.

In summary:

Liquidity and access to capital proved to be critical in the aftermath of a catastrophic event for small businesses.

Disaster Savings Accounts would be a beneficial tool in recovering from a catastrophic event.

This was true for our community four years ago, and in an effort to provide more recent, 2008 feedback to this committee, I contacted a CCIM colleague in the Cedar Rapids, Iowa area to capture feedback from this recently flood ravaged city.

Christian Fong, CFA, is a managing director with AEGON USA Realty Advisors, Inc., and an "on loan" executive serving as the CEO for the not-for-profit Corridor Recovery, a non-profit entity created to respond to the 2008 floods. He states, "Just as our community's individuals with healthy savings levels were best able to weather the Flood of 2008 disaster, without having to lean heavily on federal or state aid, businesses with savings were able to bounce back. Tax-advantaged disaster savings accounts, funded to an adequate level, would lead to saved businesses, less business interruption and a way to immediately pump cash back into a recovering city. The end result is jobs. People with jobs stay in the community, maintain hope and can help their neighbors recovery."

Recommendations:

In light of these experiences, I respectfully offer the following feedback to the committee regarding enhancements to Disaster Savings Accounts:

Disaster Savings Accounts:

Disaster Savings Accounts are innovative, and a good idea. To improve on this already great initiative, I offer the following enhancements for consideration:

1. Size Limitations:

- a. **\$15,000 size limitation:** This limitation appears to be too low, and may not be a relevant safety net for the challenges faced by many individuals and businesses.

As examples: One of the many issues businesses are facing is prohibitively high cost of insurance. Therefore, many businesses are currently going “bare” which means they no longer cover insurance.

Another example is the ever increasing insurance deductibles. It is currently not uncommon to see a 10% deductible. For illustrative purposes, on a \$1,000,000 building, a small business owner would need to pay the first \$100,000 of expenses before making a claim.

How to ascertain the balance limit? Consider taking into consideration the deductible, percentage of gross sales or percentage of gross income. These avenues might provide a better benchmark and provide a more relevant safety net.

- b. **Benchmarking annual increases vs. static limits:** Consider benchmarking annual increases to both the dollar limit and annual contributions based on the CPI. This will help ensure that the program keeps pace with inflation and remains a relevant safety net.

2. **Broadening the scope of the program:** In addition to small businesses, include **individuals and investors in commercial real estate**. The success of small business works hand and glove with the owners as individuals, and the landlords of their businesses.

To illustrate these points I offer just one of many, many examples of the complexities of a post hurricane recovery.

Mr. Jeff Fehr, has lived in the area for more than 30 years, is a respected local appraiser, and the owner of commercial retail/office building housing small business owners as tenants. The hurricane impacted every facet of all three dimensions of his life.

The hurricane did extensive damage to his home, the building that housed his business, and his commercial retail strip center.

I’ll never forget the first business day after the hurricane Jeff stopping in at the bank to see how we were doing and to give us a gift. The gift was a can of “Fix a Flat” along

with the prophetic words – you are going to need it (*and we did – we had numerous flat tires from the debris filled streets*). After thanks and pleasantries, we asked how he was doing, learned the sad truth regarding the scope of his devastating losses. Despite this Jeff remained focused, and outlined his plan to immediately rebuild.

And that's exactly what he did.

When I asked Jeff what his thoughts were on the Disaster Savings Accounts, his immediate response was "I'll be an early adopter, and will encourage others to do likewise."

Jeff's story illustrates the importance of including individuals and commercial real estate investors in the program:

Putting people first – Human capital is the most important asset of a business. Employees need to have their basic needs met before they can be productive. They need to recognize the importance of saving for a disaster. Having the availability of Disaster Savings Accounts to individuals is important.

Don't forget commercial real investors: Many small businesses are located in leased space. Access to capital for these investors through Disaster Savings Accounts will speed the recovery of their buildings, and defacto, the small businesses.

Additionally, as the working paper mentioned insurance and SBA Disaster Loans, I provide the following feedback for consideration:

SBA Disaster Loans were appreciated and utilized in the aftermath of Hurricane Charley. However, a frequent refrain heard then was the difficulty in making application, getting approval, and then actually making it to a loan closing.

Specific areas for improvement with SBA Disaster Loans:

1. Lack of continuity and accountability of staff caused unnecessary delays.
2. Lack of adequate training of staff resulted in staggered requests of volumes of repetitive documentation.
3. Shortcomings in the execution of the delivery of the product probably resulted in limitations in access to the program. I wonder if the SBA tracked the relationship between the number of applications received to the number of actual loans that closed?

The best, most eloquent illustration of the challenges with this program came from a second generation Ace Hardware store owners Joe and Geri Waksler. Established in 1979 Morton's Ace Hardware was and is an institution in our community and the

building was destroyed in the hurricane. If that wasn't enough, the remaining inventory was heavily looted. Additionally, their home experienced hurricane damage.

They did have business interruption coverage, this would ensure that they could pay their long time loyal employees for one year. Despite the heavy losses to their business, and the damage to their home, they swiftly began making plans to rebuild. Their plan was to have the building complete within a one year time. Those plans also included making application for an SBA Disaster Loan.

According to Ace Hardware store co-owner, Geri Waksler, "The entire process was disheartening. The endless request for volumes of documentation, the revolving door of staff that handled our file created far more challenge than necessary. Thankfully we had records off site and could comply with their requests. What about those businesses that couldn't come up with the information SBA was requesting?"

Additional frustration came from spending countless, unnecessary time ramping up each new SBA employee that was put in charge of our file. Why couldn't there be continuity with staff assigned to our file?"

In summary Mrs. Waksler stated "We are very appreciative for the SBA Disaster Loan. It made the restoration of our business possible. However, it took a longtime to accomplish when we needed to make it happen much faster."

Insurance Companies:

There appeared to be little oversight over the responsiveness of insurance companies. A common comment was "I've been paying for my insurance for years, and now when I need them, they are taking as long as possible to release the insurance proceeds check."

Conclusion:

In conclusion, thank you for the honor of letting me share my thoughts.

I applaud this committee for their innovative concept.

I support Disaster Savings Accounts.

A frequently heard quip in Florida to remind citizens to make the right decision in preparing for a storm is: "Be Smart", "Be Safe", and to that I add "Save".

Having funds set aside for a disaster is critical to individuals and businesses.

Disaster Savings accounts is a great way to accomplish that goal.



**United States House of Representatives – Small Business Subcommittee
Disaster Savings Account
September 17, 2008**

Good afternoon, my name is Kate Grayson and I am President, CEO of Steelgate, Inc a Cryogenic Specimen Repository storing frozen specimens – such as blood – on behalf of clients engaged in biomedical research. I founded Steelgate in 2002 in Long Island, New York and in 2004, relocated my corporate headquarters to Bradenton, Florida.

I am honored to sit before this distinguished panel today as a representative of Florida's Manatee County small businesses and appreciate the opportunity to share my insights regarding the proposed Disaster Savings Account.

Given the sensitive nature of my business and the need to maintain uninterrupted power for specimen preservation, disaster preparedness is a subject with which I have extensive experience. Steelgate was built upon a foundation of system redundancy that is only one part of a dynamic, multi-layered business continuity plan. This plan is not only routinely tested and enhanced, but it is subject to a thorough audit by each client looking to store specimens with Steelgate. Such rigorous preparation is what enabled Steelgate to face-down the infamous power outage of 2003 that struck the Northeast, Midwest and parts of Canada, as well as the overactive 2004 hurricane season in Florida.

But Steelgate is not alone in having to anticipate threats; every year, thousands of businesses throughout the United States face a whole host of natural disasters that include tornadoes, earthquakes, floods, forest fires, mudslides and, every summer for those of us living and working in Florida, hurricanes. However, developing and implementing a disaster plan represents a financial investment that, too often, for a small business can be a burdensome expense that they choose not to incur. The irony being that it might be the one investment that could help ensure business continuity should a disaster strike. And it always strikes, as we have seen from this year's very active hurricane season.



Despite ongoing efforts to assess the impacts from hurricanes, Gustav, Hanna and Ike, the 2008 hurricane season only just hit its peak on September 10th with 74 days more days remaining. However, if history is any indication, hundreds of small businesses will have suffered devastating losses from which they will never recover. Such losses affect not only the business owners, but extend to its employees, clients and vendors; not to mention the lost tax revenues that underwrite state, local and federal programs.

Therefore, I, along with other small businesses, applaud this committee's proactive efforts to launch a program to help mitigate the devastating effects of post-disaster business interruption and closure.

A Disaster Savings Account could be the one incentive that motivates more small businesses to consider disaster planning. I know that as a self-funded small business, the potential for a tax-deferred or tax-free plan to further enhance my company's disaster planning would be very enticing. It not only aligns with the entrepreneurial spirit and go-it-alone attitude embodied by so many small business owners, but can relieve the government of having to provide greater resources for a post-disaster bailout.

To succeed, the guidelines or regulations of a Disaster Savings Account need to be written in a concise and easily understood way - further encouraging the widest possible adoption. As a small business owner wearing many hats every day, the plan must avoid being overly complex and offer clear benefits; it should not require a specialist to interpret nor require an excessive amount of a business owner's time to implement. Additional benefits may derive from insurance companies offering discounted premiums for businesses with Disaster Savings Accounts.

It is clear that establishing a Disaster Savings Account could offer wide-ranging benefits to all those who are affected when disaster strikes. I am appreciative of the time you have given me today and will, as a courtesy to this committee's time, conclude my testimony. I would, however, make myself available for further questioning either here or offline at a later date. Thank you.