

**FULL COMMITTEE HEARING ON  
OVERSIGHT OF THE SBA AND ITS PROGRAMS**

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**HEARING**

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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**FULL COMMITTEE HEARING ON  
RECENT GAO REPORTS ON SMALL  
BUSINESS ADMINISTRATION PROGRAMS**

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**Wednesday, July 29, 2009**

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

The Committee met, pursuant to call, at 1:00 p.m., in Room 2360 Rayburn House Office Building, Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Moore, Dahlkemper, Bean, Clarke, Ellsworth, Graves, Buchanan and Luetkemeyer.

Chairwoman VELÁZQUEZ. This hearing is now called to order.

This past January, the House adopted Rule 11, which requires quarterly hearings on waste, fraud, abuse and mismanagement of programs under the Committee's jurisdiction. In the last six months, we have held 13 oversight hearings on a broad range of issues. Today we will continue that track record of upholding transparency. Our discussion will include an examination of several SBA programs and an evaluation of steps that the agency has taken thus far.

In recent months, Americans have been reminded of the important role that small firms play in our economy. The Recovery Act alone contains several provisions designed to help small businesses, and the majority of those measures fall under the SBA umbrella. That is why it is important that we take time to assess the agency's progress.

Even as our economy starts to rebound, small firms are facing significant challenges in accessing capital. The Recovery Act took steps to address those obstacles. For one, it increased the SBA loan guarantees, giving banks greater incentive to lend. Any policy that puts cash back into the hands of entrepreneurs is critical. And yet SBA has not implemented these provisions as quickly as we would have hoped.

Lending measures are vital, and we need to be sure SBA has the direction it needs to put them in place.

As those of us who have been on the Committee for some time know, SBA has a history of struggles with lending. Perhaps the most salient example would be the Disaster Loan Program, which faced significant challenges following Hurricane Katrina. At the time, we asked GAO to take a look at the initiative and to evaluate SBA's response to the hurricane.

The resulting report led to the passage of the Disaster Response and Loan Improvements Act. Later in this hearing, we are going to hear from GAO about what SBA has accomplished since the act was passed. We will also discuss areas in which work is yet to be done. That way we can be sure that the agency is fully primed and fully prepared the next time around.

In addition to obstacles in lending, SBA has often grappled with contracting issues, perhaps most notably the embattled HUBZone program. It is important that we have an idea of where that initiative stands. Fraud within the program was the primary focus of our oversight hearing in May, and it is this Committee's hope that the abuse has since then been rooted out.

Oversight is a critical part of the legislative process. For federal agencies, it provides an honest analysis of current programs and an opportunity to change direction. After all, that is the primary purpose of GAO. As the investigative arm of the United States Congress, it does not seek to simply point out wrongs. Its ultimate goal is to provide objective recommendations for efficiency and improvement.

In examining the current state of SBA, it is clear that there is still significant work to be done, and the stakes could not be higher. Our economy, while recovering, has a ways to go. Now more than ever, we are counting on small firms to drive growth and create jobs. In making sure they are able to do that, we need an SBA that can step up to the plate and fulfill its role as a champion of small business.

With renewed focus and a fresh direction, I feel confident that SBA can play that role. I look forward to seeing progress unfold in the coming weeks and months ahead.

I would like to thank both Administrator Mills. Congratulations on your appointment. Welcome to this Committee. This is your first appearance, and Mr. Shear for being here for this discussion. I know we all look forward to hearing what they have to say, and with that, I yield to Ranking Member Graves for his opening remark.

Mr. GRAVES. Thank you, Madam Chair.

And I also want to thank Administrator Mills for being here and Mr. Shear for being here. We appreciate you coming in. We look forward to hearing what you have to say about all the many different programs at SBA.

The Small Business Administration is tasked with a great responsibility providing all of the necessary tools for entrepreneurs to start and grow small businesses. In order to complete this task, the SBA employs a number of programs, including the HUBZone Program, the 8(a) Program, the Disaster Loan Program, and the 7(a) Program, just to name a few of them.

It is the responsibility of the Committee on Small Business to insure that the SBA operates efficiently and effectively, and when it becomes apparent that the SBA is failing to reach its goals or serve its purpose, it is also the duty of this Committee to evaluate the program and assess the Small Business Administration and get it back on track so that it can continue to serve America's entrepreneurs.

In the wake of Hurricanes Katrina and Rita, it became apparent that the Small Business Administration was not equipped to carry out the responsibilities of its disaster loan program, and as a result, new requirements were put in place to strengthen the program and make sure it was, in fact, as efficient and helpful to victims as possible in the event of an emergency.

Similarly, the HUBZone Program at the Small Business Administration, which is designed to bring businesses to areas that have been traditionally under served, has struggled to correctly identify and enforce those who are eligible to participate in the program. And, again, recommendations have been made to begin to remedy that problem.

This hearing provides an opportunity to examine these problems and others in which the Small Business Administration may be struggling and to ascertain the success they have had in implementing these new requirements. The small businesses of America play a crucial role in maintaining a healthy economy. Consequently, the manner in which the Small Business Administration conducts itself has a direct result on the health of the American economy.

This is a very important hearing taking place at a very important time, and the testimony that we hear today will have a direct impact on the health of America's small businesses.

And, again, I want to thank the witnesses, both of you, for being here and, Madam Chair, thank you for holding the hearing.

Chairwoman VELÁZQUEZ. Thank you, Mr. Graves.

And it is my pleasure to welcome the Honorable Karen Mills. Ms. Mills was sworn in April 6th, 2009, as the 23rd Administrator of the United States Small Business Administration.

Prior to being confirmed as SBA Administrator, most recently Ms. Mills served as the president of A&P Group in Brunswick, Maine. The SBA helps small business owners and entrepreneurs secure financing, technical assistance, training, and fairer contracts.

Welcome, Ms. Mills.

#### **STATEMENT OF THE HONORABLE KAREN MILLS**

Ms. MILLS. Thank you very much.

Chairwoman Velázquez, Ranking Member Graves, members of the Committee, it is a great honor to testify before you as my first time as the SBA Administrator. Given the Obama administration's mandate to us to eliminate and prevent waste, fraud, and abuse in government programs, I am pleased to testify as my first of these regularly scheduled hearings on this topic. I consider this to be one of my most important responsibilities.

As you know, as all of you know and as you mentioned, small businesses account for 60 to 80 percent of the new jobs that are created. Over half of Americans who work own or work for a small business, and small businesses are going to continue to be the foundation of innovation and competitiveness and the creation of our 21st Century jobs.

But we know that these are difficult times for small businesses, making the SBA's mission more important than ever. We maintain a lending portfolio at the SBA that supports nearly \$90 billion,

mostly in loan guarantees. We are charged with making sure that 23 percent of federal government contracts are given to small businesses.

We have a strong network of over 14,000 affiliated counselors that help small business owners grow their businesses, and we currently have on call more than 2,000 employees who stand ready to help in case of a disaster. We are committed to integrity, accountability and effectiveness in all of these programs. These principals are at the core of what we do as an agency, and at the core of who we are.

The Recovery Act, which was passed with all of your help and creation, is a great example of this commitment. Since the act passed, the SBA has supported nearly seven billion in lending approvals to small business. Weekly volumes are up 45 percent over the weeks before the Recovery Act, and most importantly, more than 750 lenders who had not made a loan since October when the lending markets froze are back in the program making SBA loans, and some of them had not made a loan since 2007.

We have a chart here in the green of where we are in the Recovery Act programs. The light green is sort of when it was in the planning phase and when it is in the dark green, it is in the market, and I will be happy to take questions on that as well.

But one of the first actions I took on becoming Administrator was in implementing these Recovery Act programs, to make sure there was a senior level risk management team in place to oversee the roll-out, and we work closely with the Inspector General in terms of risk mitigation and with small teams in each individual program to build them.

I just want to mention the ARC Loan Program, America's Recovery Act, as an example of how this risk management worked. This is a new program for a specific purpose in a unique time. It is a bridge over troubled water for viable but struggling small businesses. This is not in our traditional risk profile, but we were charged with creating a program that was 100 percent guaranteed by the SBA with zero interest cost for the borrower. So we knew we would have a considerably higher default rate.

We also knew we would have to do extensive lender education, and I am happy to say that we trained about 1,300 institutions in the week following the roll-out. As a result, we have 47 states where ARC loans have been made and 26 million in the hands of small business owners.

That level of discipline that we are putting forth in the Recovery Act is now the model that we are transferring to the core programs at the SBA. We are optimizing operations in areas such as disaster assistance, where we have added to the on-call employees. We have added surge space in case of a catastrophic disaster, and we are doing marketing and outreach in order to prepare areas to know what it is they need to do in a disaster, and we have instituted electronic loan processing, which now accounts for about a third of the applications we received.

But overall there is a number of issues that still need to be addressed. Many of these problems have built over a number of years. They will not be solved in days or weeks, but they will, indeed, be solved.

I look forward to working with the distinguished members of the Committee to make that happen, and I look forward to your questions.

Thank you.

[The prepared statement of Ms. Mills is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Ms. Mills.

Our next witness is Mr. Bill Shear, and he is the Director of the General Accountability Office, Financial Markets and Community Investment. The Financial Markets team works to improve the effectiveness of regulatory oversight in financial and housing markets. It also oversees the management of community development programs.

Mr. Shear, welcome.

#### **STATEMENT OF WILLIAM SHEAR**

Mr. SHEAR. Thank you.

Madam Chairwoman, Representative Graves and members of the Committee, it is a pleasure to be here today to discuss our work at the Small Business Administration. My statement is based on our report, Small Business Administration: Additional steps should be taken to address reforms to the Disaster Loan Program and improve the application process for future disasters. This report is being released at today's hearing.

In that this is a general oversight hearing, I also look forward to contributing to the discussion at the hearing on other SBA programs.

After the 2005 Gulf Coast hurricanes, many deficiencies were exposed in the agency's disaster loan program and demonstrated the need for reform. For example, as we state in our February 2007 report, SBA did not engage in or complete comprehensive disaster plans before the Gulf Coast hurricanes.

Since then SBA has taken several steps to reform its disaster loan program, which includes creating an online loan application and increasing the capacity of its disaster credit management system.

In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvement Act to expand steps taken by SBA and require new measures to ensure that SBA is prepared for future catastrophic disasters. In my statement today, I will summarize the extent to which SBA addressed the requirements of the Act and how SBA's response following the major disasters of 2008 aligned with key components of its June 2007 disaster recovery plan.

First, with respect to addressing the requirements of the act, as of June 2009, SBA met 13 of 26 requirements of the act, partially addressed eight, and did not take action on five which are not applicable at this time. SBA officials told GAO the agency has not yet completely addressed some provisions that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs.

For two requirements that will involve private lenders, SBA plans to implement pilots before finalizing regulations. SBA has

not yet addressed the act's requirements for region specific marketing and outreach, nor has it insured that disaster loan program information is readily available to regional entities, such as small business development centers.

By doing so, SBA could leverage the efforts and capacity of local resources and emergency management groups, and it could better ensure that it and they will be better prepared for future disasters.

Also, as of June 2009, SBA has not met deadlines to issue an annual report to Congress or an updated disaster response plan. Failure to do so can lead to a lack of transparency on the agency's progress in reforming the program, and it can limit its ability to adequately prepare for and respond to disasters.

Furthermore, SBA did not have an implementation plan for addressing the remaining requirements.

Second, with respect to SBA's response to major disasters in 2008, SBA's initial response after the 2008 midwest floods and Hurricane Ike aligned with certain components of the initial disaster recovery plan, such as using technology and outreach efforts to insure timely assistance. The individuals GAO interviewed and results from SBA's 2008 disaster loan program customer satisfaction survey provided some positive feedback about SBA's performance following these recent disasters.

However, interviewees and survey results indicated areas for improvement. In particular, both indicated that application paperwork was burdensome, and that the application process needed improvement.

SBA officials told GAO that they have been taking steps to improve the application process, but did not provide documentation of such efforts. As a result, it did not appear to us that SBA has a formal process for identifying problems in the application process and making needed improvements.

In our report, we make five recommendations that we think will facilitate SBA's progress in meeting the requirements of the act and improve the disaster loan program.

Madam Chairwoman, it is a privilege to testify before this Committee. I would be pleased to answer any questions on this work and other recent work we have conducted at SBA.

[The prepared statement of Mr. Shear is included in the appendix.]

Chairwoman VELÁZQUEZ. Thank you, Mr. Shear.

Ms. Mills, Administrator Mills, GAO has recommended that SBA conduct unannounced site visits on HUBZone terms, and as you are aware, GAO conducted an investigation, and it was not a great message from the government to taxpayers and to agencies regarding the responsibility of making sure that taxpayer safeguards are in place, to make sure that people are playing by the rule.

Are you doing unannounced site visits? And how many has your agency conducted since GAO made this recommendation in March?

Ms. MILLS. Yes, Madam Chair, we are making unannounced site visits. In the time until the last hearing in March and when this report was released, there had been only seven visits in six months. Since that time, we have done over 600 in the last four months.

We are using the data from the site visits to build a risk based mechanism in order to see what documentation indicate noncompliance. So we will continue to make unannounced site visits and we will continue to work on this mechanism.

In addition, I believe you are referring to the March 2009 GAO report which was very helpful. I just wanted to report back on what has been done. There were 19 firms cited. Two had already been de-certified when we got the report and one actually was okay. Of the remaining 16—

Chairwoman VELÁZQUEZ. Administrator.

Ms. MILLS. Yes.

Chairwoman VELÁZQUEZ. I want to deal with that specific issue later.

Ms. MILLS. Yes.

Chairwoman VELÁZQUEZ. So allow me to follow my train of thought here.

Mr. Shear, in your report you note that SBA failed to meet several deadlines, some by several months. What were SBA's explanations for missing deadlines, and how has this affected the agency's preparedness for large scale disasters?

Mr. SHEAR. The reasons for not meeting deadlines fall into a few different categories. The first one that I will mention is one category that has to do with the coordination with FEMA--where you have regulations that have to be coordinated between the agencies--and we were told that coordination was a fairly extensive, cumbersome process, and that was the reason for delay.

Another category, this is a place where I think one area where we just disagree with SBA, we think that the act is clear in calling for regional marketing plans and to have plans that are specific to the types of disasters that can occur in specific parts of the country, and that is one requirement where it seems there is some disagreement over whether what is already there at the national level meets the requirements of that act. So that is one where we just have a fundamental disagreement, it seems.

Some of the others, such as having programs that involve private lenders, for those programs SBA wants to conduct pilots before rolling out an actual program to have some experience with the program. That is one where even though SBA has not met the requirements in terms of deadlines, we are fairly sympathetic to because from our general work dealing with federal loan insurance and guaranty programs, sometimes when you go into a new type of venture, pilots could be very effective.

Those are some of the examples as far as why there have been delays. One of the reasons we made a recommendation that SBA should come up with time frames for the implementation of completing the requirements of the act is we think that action will help facilitate a certain discipline in terms of getting to where it should be.

Chairwoman VELÁZQUEZ. Ms. Mills, one of the most surprising findings of the report is the fact that nearly four years since Hurricane Katrina the agency is still struggling to develop a risk based disaster response plan, and as we enter the peak of hurricane season next month, will the SBA continue to rely on a disaster plan that is over two years old and that contains obsolete information.

Ms. MILLS. Now, I presume that you are talking about our annual disaster plans. We submit monthly plans to Congress and assessments of where we are, but we will complete this annual plan. We agree that it is dramatically important and overdue, but we will complete it.

Chairwoman VELÁZQUEZ. Do you have a time line?

And my next question is will that disaster plan, comprehensive plan, have the components mandated by the law?

Ms. MILLS. Yes, it will, and many of these components are in place, and I think we need to just get you the plan.

Chairwoman VELÁZQUEZ. When do you think it will be expected, since I mentioned that the hurricane season is coming?

Ms. MILLS. I will get back to you with an exact date, but we promise that we will look to do it as soon as possible.

I do want to say we want to thank Mr. Shear because these actually have been a very helpful template for us to go through and execute these things. So I think we are poised to bring you this report.

Chairwoman VELÁZQUEZ. But you understand the urgency—

Ms. MILLS. Yes, I do.

Chairwoman VELÁZQUEZ. —of having this plan in place before the hurricane season is over us.

Ms. MILLS. Yes, we do, and we actually have the capacity in place. So I think it is a matter of the report, which we owe you and will get to you.

Chairwoman VELÁZQUEZ. Administrator Mills, this Committee has asked SBA on a number of occasions if it has the resources and controls necessary to prevent contracting fraud. In the past, the agency has said that they have the resources necessary to prevent fraud in the HUBZone Program only to have the GAO to find otherwise.

So let me ask you today: do you have sufficient resources and internal controls to prevent fraud in the 8(a) program?

Ms. MILLS. Thank you, Madam Chair.

The 8(a) program is for small businesses. It is not for big businesses masquerading as small businesses. This has been a concern about this program.

We have done a number of things to begin to make sure that we eliminate fraud and abuse and address the issues that have been raised. The first is that we have had a strong up-front certification program, and a formal certification that is done in two geographic areas specializing in this, Philadelphia and San Francisco.

In addition, we have done some things since our last visit to you to specifically invest in this activity. The first is leveraging technology. We have added to our business development management information system in order to be able to better track these companies through their nine-year cycle. We are mandated to invest in them for business development, and we have two tools.

Chairwoman VELÁZQUEZ. Administrator, administrator, excuse me one second, but I have a lot of other questions, I just want to make sure that today you are telling our Committee that you understand that you have the resources and the controls in place and necessary to prevent fraud in the 8(a) program.

Ms. MILLS. We are making investments now in those things. We have put in the 2010 budget some additional resources that would be very helpful, and we are working on a package of regulatory changes which will soon be brought public before you.

Chairwoman VELÁZQUEZ. The same with the service disabled veteran program.

Ms. MILLS. Yes, the service disabled veteran program is extremely important, as you know. That is slightly different because we need to work in conjunction with the Veterans Administration. We have a very important report coming, I think, from the GAO to help us work with them.

I have a meeting with the Veterans Administration to work on the issue of their database, which is the database that is the governing database on who is a service disabled veteran. That is critical for this program to only be able to deliver to service disabled veterans.

Chairwoman VELÁZQUEZ. Mr. Shear, given everything that you have reviewed in putting together this report, are you comfortable that the SBA is prepared to meet the challenges of another natural disaster on the scale of Hurricane Katrina?

Mr. SHEAR. I wish I could give another answer, but do I and do we feel comfortable about the question you posed, the answer is no. These are some of the reasons why.

There are certain parts of the requirements in the act that have not been met, and among them let me just go back to the disaster recovery plan from 2007. At the time it was provided to us, the Administrator proposed it to us as conceptual approach. Part of our view in our recommendations to the Administrator and also with respect to the act itself, we think strategic planning should be a very living document.

So, for example, there have been disaster simulations that have occurred. Yet we do know that simulation is the best thing to do to prepare for disasters the size of Katrina.

Chairwoman VELÁZQUEZ. Mr. Shear, let's clarify that. That was under the previous Administrator.

Mr. SHEAR. Yes, from the previous Administrator, yes. Thank you.

In terms of the disaster simulations, we know the disaster simulations the agency used in 2008 and they are of catastrophic disasters. Yet what we do not know, and this committee does not know is what were the results of those simulations in terms of the capacity of the agency to deal with a disaster the size of another Hurricane Katrina nor what lessons have been learned from running those simulations.

So in the absence of some evidence that the agency is in a position of responding, even on a simulation type basis, causes us to answer that question in the way we do.

Chairwoman VELÁZQUEZ. Ms. Mills, I hope that you understand that we are here fulfilling our role and our duty of overseeing and making sure that things that need to be in place are in place. Hurricane Katrina was a disaster of major proportions where people lost their lives, lost their businesses.

So four years later after that, we need to hear that the GAO feels that you have something in place where we can feel comfortable.

Ms. MILLS. Thank you, Madam Chair.

And I very much am listening to this issue that you raised about the plan. I would like to just mention that we have tactically added. Before Hurricane Katrina we had 880 trained staff. We now have 2,400 staff and reservists, and our reservists are ready to go across the country anyplace that there is a disaster.

We also used to have 366 work stations and one of the things we took from this review that you did which was very helpful is we now have 2,100; from 366 to 2,100 work stations in our disaster areas of Fort Worth and Surge Seats in Sacramento.

And we upgraded our management information system so that we can do 12,000 concurrent users. So in terms of investing in fixed infrastructure, trained people, we are in a very, very different place.

We also reengineered our loan processing system. In the middle of Katrina, it took us 85 days to process a loan. We now in any disaster do 14 days for homes and 18 days for businesses, and we are piloting some additional programs.

Chairwoman VELÁZQUEZ. Mr. Shear, do you have any comments?

Mr. SHEAR. We acknowledge in our report that a lot of progress has been made. The types of problems in this program, many of them have been addressed, including the expansion in DCMS, greater availability of reserves, and the types of things the Administrator is talking about. So we acknowledge these improvements, and the program has improved.

The response to the 2008 disasters, which were much smaller than anything on the scale of Katrina, was at least somewhat positive, but we are pointing out do we feel comfortable yet, and there are still other pieces that are related to the other provisions in the act, and in particular the lessons learned from having gone through simulations and other types of exercises that we think are very important to demonstrate the type of preparedness I think we're all looking for.

Chairwoman VELÁZQUEZ. Thank you. Thank you.

Mr. Graves.

Mr. GRAVES. Thank you, Madam Chair.

Ms. Mills, the Office of Chief Counsel for Advocacy is required by statute to monitor agency compliance for the Regulatory Flexibility Act, and given the amount of increased legislation that may come from health care reform and from the reduction in greenhouse gases, you know, that responsibility is just going to get even greater.

My question to you is: do you expect that the Chief Counsel is not going to continue to monitor agency compliance with the Regulatory Flexibility Act to the same extent that it did under President Clinton's Administration, president Bush's administration?

Ms. MILLS. Absolutely, yes. This issue of excess regulation causing cost to small business is a critical mandate not only for the Office of Advocacy, but for all of the SBA, including the Ombudsman's Office, and this is one of the number one concerns for small businesses. So it will be a priority.

Mr. GRAVES. Mr. Shear, in comparison to other federal agencies, how quickly do you think the SBA adopts GAO recommendations

just compared just to the other agencies you obviously have to deal with?

Mr. SHEAR. That is a difficult question. I am trying to think of how to come up with a tactful answer, but I would say over the years it has been an agency that has been relatively slow to implement recommendations. I think that the recommendations in the Disaster Loan Program from our work back then--where we still say there is a way to go--but with respect to expanding the disaster credit management system and those recommendations, that was a priority, and I think that those were implemented over the course of a number of years.

But you know, there are still remaining recommendations and there are many that seem to --what I will call just linger for very long periods of time.

Mr. GRAVES. Would you like to comment on that?

Ms. MILLS. Yes. Well, we are going to have to change that, Mr. Shear, and we are going to have to get into the top end of the good performers on that list.

We are very committed to working in partnership with the GAO and with the IG also because if we are going to create a culture where there is a real responsiveness on these reports, we find them very helpful. They are a very strong road map, and we know we can improve these programs on an ongoing basis. So we want to be able to change that answer and be at the top end of the responders.

Chairwoman VELÁZQUEZ. Ms. Clarke.

Ms. CLARKE. Thank you, Madam Chair and Ranking Member Graves, for holding this hearing, and thanks to you, Administrator Mills and Mr. Shear, for your attendance today and your testimony today.

I look forward to working closely with all of you to insure that waste, fraud, mismanagement and abuse are reduced and ultimately eliminated. While this is being done, we want to be able to maximize on the effectiveness of SBA's fantastic programs which serve America's economic engines, her small businesses.

Administrator Mills, my first question is for you. I have long been a supporter of the SBA's efforts to create opportunities for women and minority, veteran owned businesses, and today I would like to focus on women and minority owned businesses and their ability to access credit.

Typically women and minority owned businesses tend to employ a more diverse workforce, and this is especially an issue today as minority employment is at high levels relative to the rest of the country.

In this vein, I would like to insure that existing programs, such as the Women's Business Centers and other technical assistance programs have the capacity and capability to assist minority and women owned businesses in identifying finance opportunities. I think it is vital that they have the tools they need to serve this important segment of the business population. I think we must maximize the existing resources to insure that the WBCs have what they need to help foster our economic recovery.

Has there been some progress in the area of grant disbursements by WBCs? And will you commit to working with me to discover

methods to increase access to credit for women and minority owned small businesses right away?

Ms. MILLS. Yes, I would be delighted to commit to you to do that. The SBA has part of its core mission, and we are three to five times more likely than a conventional lender, to lend to women and minority owned businesses. So this is really what we do. It is at the essence of what we do.

I am pleased to report to you that in the Recovery Act funding 20 percent of the loans have gone to minority owned businesses and 19 to women owned businesses. We have over 100 women owned business centers in our network. We currently have a new and very talented and energetic person running these who has conducted regional meetings and has visited all of them and is coming back with a lot of ways to improve and help this important constituency, and we are going to execute on that, and I would look forward to working with you on it.

Ms. CLARKE. Thank you, and I want to also draw your attention to the HUBZone Program. We are all aware that the HUBZone Program encourages small businesses to locate in and hire from the nation's most distressed communities. Given that the focus of this hearing is exploring ways to address mismanagement, I would be remiss if I did not ask about the progress in the areas of certification of HUBZone firms.

At a hearing before this Committee in March, GAO testified that the SBA fell short in removing certain fraudulent companies from HUBZone participation, and this oversight resulted in another 7.2 million in HUBZone contracts being awarded to those same firms.

I want to be clear that there is no place in this economic climate for fraudulent firms to take opportunities that belong to more deserving entities.

So would you please comment on the progress in oversight of the HUBZone certification/decertification process in order to address this imperfection?

This is a good program, and it should not suffer due to the shortcomings such as the ones that I have described.

Ms. MILLS. Thank you.

Yes, we at this moment have initiated a business process reengineering. So that is a full start to finish reengineering with an outside firm that is in place on the certification process in HUBZone because of the issues that you have described.

So we have tightened it up. We require more documentation already, but we are also going to do a business process reengineering of it. So that is on the certification side.

In addition, on the continued eligibility, as I responded to the Chairwoman, that is where we did the extra 600 visits, and we are conducting the risk based analysis to try to find out how to indicate where there are issues of fraud or mismanagement.

In addition, we went after the 19 that were cited in the GAO report. Five voluntarily withdrew. Six were decertified, and six we have proposed for decertification. Two are already decertified, and one actually is okay.

Ms. CLARKE. Thank you very much, Madam Chair. I yield back.  
Chairwoman VELÁZQUEZ. Mr. Buchanan.

Mr. BUCHANAN. Thank you, Madam Chair, for this hearing and congratulations on your new opportunity. It is a big job.

Let me mention small businesses are getting literally killed. When I look at what we have done with TARP, and this is not a Republican- Democrat thing. I am just looking at the country now. All of the big banks, AIG, everybody got a lot of money. Small business was supposed to get something. There was supposed to be more credit available.

There is no credit. I did a town hall meeting with businesses about two months ago; had 130 businesses, some in southwest Florida just south of Tampa. We had the SBA there. They did a very good job, by the way, in terms of answering questions, but I asked in the room how many people can get credit or have access to credit, you know, that do not work with banks? Or how many people has it changed their credit.

Everybody in the room raised their hand. I want you to know I have been in business 30 years. I have been on bank boards for 20 years. We in Florida anyway—every region is different in the country—there is no credit. They might say there is credit, but the reality of it is if you put up a \$1 million CD they will lend you \$1 million.

Small businesses today, in Florida we had in our federation 137,000 small businesses. They create, I think everybody agrees, 70, 75 percent of the jobs. We talk a good game, and I think the President is committed to small business. I have talked to him personally about that, but we just are not doing anything to get the money out there.

They have no money. They have access to no capital. So I just want to say that in general. Banks will tell you that, but they are all under pressure. Their own capital base themselves, they are trying to all survive. Small banks, little banks, I am talking to them. They are not lending any money.

So what do you say to these small businesses in my community and communities across the country that need credit? Because if they have no credit, we are going to lose a third of them or a big number of them.

Ms. MILLS. Well, Congressman, I also have been traveling and hearing these issues, and I know the Chairwoman has mentioned to me as well some of these places that she has gone. We are all hearing that small businesses are suffering, and one of the things I have to thank you for is that the Recovery Act did actually get the formula right because we have been able to leverage with the funding that you gave us so far \$7 billion into the hands of small businesses through the Recovery Act funds, and that is going to continue.

And 750 banks that had stopped lending, they were frozen; they were not on our books from October to the start of the Recovery Act, but are now back lending. So these are very often community banks and other banks, and they are back. Some of them had not been in SBA lending since 2007.

So we are very glad about that. We are going to be working very hard to leverage those programs into these places where the lending is frozen.

In addition, as you know, the President is committed to small business, and there are a number of additional programs, many discussions going on about how to address this. It is a critical issue to resolve for the nation's economy.

Mr. BUCHANAN. I am telling you in Florida, and I am sure Nevada and areas that have been really hit hard, all of these banks, even though they are getting capital, they are not lending. You know, I will be glad to talk to you about this later, but the truth of the matter is they are not lending. So these businesses, a lot of them are going to end up going out of business.

I do not understand—

Chairwoman VELÁZQUEZ. Would the gentleman yield?

Mr. BUCHANAN. Yes.

Chairwoman VELÁZQUEZ. One of the issues that we discussed is now that, yes, the banks are not lending because the secondary market is locked, and so it is important that SBA implement the Section 503 and 509. That will help unlock the secondary markets so that those banks will have the liquidity to start lending again.

Do you have like a time line of when those programs will be up and running?

Ms. MILLS. Madam Chair, you are entirely correct, that if the secondary market is not functioning, then banks do not lend because they have no place to sell their loan and get the liquidity.

We have the two programs up there on the time line. The two ones you mentioned are still in the light green, and that is why the Chairwoman is continuing to mention them to me.

I will say that the secondary market has recovered. It is back to pre-October volumes, and we can give you that data and information. We track it. It happens on a monthly clearing basis. So we are back at about 340 billion. We have been back there, and there is 15 billion of TARP money that stands ready to purchase in the secondary market if that gets stuck again.

But we have committed to execute those programs, and we will execute them.

Chairwoman VELÁZQUEZ. When?

Ms. MILLS. Three weeks, two weeks. August.

Chairwoman VELÁZQUEZ. Three weeks.

Ms. MILLS. Right where they are on that chart.

Chairwoman VELÁZQUEZ. Thank you for yielding.

Mr. BUCHANAN. Thank you, Madam Chair. It is a great point.

Let me just say my thought is if we can give as a country in this environment 200 billion, whatever the number, plus all of these contingencies to AIG, General Motors 50 billion, why don't we take 100 billion, take something significant because that is what it is going to take to help these small businesses?

I am just telling you, and I would love to have you come down to our area. I will take you anywhere in Florida. I can tell you a lot of these businesses are rolling out of business, and they have created a lot of the jobs. I mean, most in our area, our one Chamber, we had 2,600 businesses. Most of them are 20 and 30 employees or less. A lot of them are folding up. They are getting their lines of credit pulled. You know, they like to work with SBA. Sometimes it takes too long, but we have got to find a way where they empower you, and maybe it sunsets over time, but we need real

money, real results, and right now we have lost three million jobs. This is not one administrative or another or my mind. The reality is we have lost three million jobs. These are a lot of working families.

We have got to get more money out there in good loans that make sense right now, and I will just close with that.

Chairwoman VELÁZQUEZ. Time has expired. Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Madam Chair. Thank you, Secretary Mills. Good to see you again.

I would like to make an observation first, and then I will have a question.

First, we talked at the luncheon a few months ago, and one of the things I have been on this Committee three years, and I have noticed that every time we have a new person come in, we would ask them these questions, and they would say, "We are looking into that. We are working on that. We are going to do a study on that." And three, four, five months later we come back and sometimes there was a new person who said, "I just got on the job, and we are looking into that. We are going to study that. I was not there then."

So I wish you a long tenure, and I also say in four or five months I hope you say you can show us the progress that we have made in there.

My question would be now that you are new at the job, what are a couple of things that you walked in the door, you start peeling stuff apart, and have really shocked you and you have said, "We have got to do this right away," either in the fraud mitigation? I think you mentioned that in your testimony, some of the waste and fraud mitigation efforts you have made.

And I would like to ask Mr. Shear the same thing when she is done. If you had her job, what would you say this is something we have to start right now and get done that you would implement on day one from your observation of being in the agency?

So, Ms. Mills, if you will go first and then Mr. Shear.

Ms. MILLS. Absolutely. I am looking back to just make sure I read the same words to you in my opening statement because I am on record with the following, which is that many of the problems that have been built up over years and that they are not going to be solved in a matter of days or weeks, but they will, indeed, be solved.

We have a top management, risk based approach to addressing these issues. They are all on our radar. We track every single GAO report and IG recommendation. We work our way through them. We either agree with them and execute them or we have further discussion as to, you know, how we should move forward with them. Because we cannot run an agency that is so critical to the economy going forward with our \$90 billion loan portfolio, with being responsible for 23 percent of government contracts going to small business, with being responsible for disasters which could be catastrophic.

We cannot execute unless we execute at the highest levels of effectiveness and transparency. So that is the commitment. We are working on that.

I would have to say that what I have found actually on the flip side is that we have great people. We have a great team, and we have great bone structure. And the secret that I have found is that our bone structure is our people and also our partners.

We have over 4,000 lending partners. We have over 14,000 counselors in our SBDCs and our SCOREs and our Women Business Centers. We have a network throughout this whole country where we touch businesses. We are within, one person told me, an hour to 40 minutes of most businesses with a counselor.

So we have an important and critical role to play. We are breaking down silos, and that also helps with this waste, fraud and abuse because it cannot live in this open, transparent environment, and we are working together to bring the power of that entire network to small businesses in order to bring the economy out of the recession and give it strength and make it competitive going forward.

Mr. ELLSWORTH. Mr. Shear, if you were in charge, what is the number one thing you would tackle? It may be on the same line.

Mr. SHEAR. I will make one flippant remark, which is we are not supposed to make management decisions. So let me just make some observations if you could live with observations.

As an accountability organization, when we see the what I'll call a complete lack of internal control in fraud prevention in a program like the HUBZone Program, some people might say, "Well, the HUBZone Program is not that important," but whenever we look at anything in government dealing with HUBZone or contracting programs, internal control and fraud prevention is something that, as an audit agency, something that we think is very important to address and address aggressively for these programs to work.

With respect to the Capital Access Programs, this I will make a statement just because it is such a big part of what SBA does, and it is such an even more important part now, now that we have the credit crisis that faces us.

Over the years, among the things we have recommended is that in running its programs where SBA is delegating authority to lenders and SBA is so compliance oriented, and compliance is good, but SBA does not get into questions as far as how are those lenders using the authority SBA is granting to them. Are they meeting the intent of the program?

So as we go forward, for example, now in looking at the Recovery Act, we say can SBA step back and become more evaluative in the way it manages its capital access programs so SBA can help figure out how to implement different provisions that are to meet an intent in the credit markets where you are relying on private lenders to carry out certain authorities. So that would be the second area.

The third area I would point out and as an audit agency, we do not make recommendations to either increase or decrease any agency's budget. I mean, we are just not in that business. It is a congressional prerogative.

But with SBA over the last few years, at a minimum we always are asking a budget-related question in your entrepreneurial development programs like Women's Business Centers, in running var-

ious programs, including the contracting programs, including 8(a), do you have the resources needed in place?

So what we tend to look for is some type of strategic planning. What do you need to get the job done?

So those are the three areas I would point out.

Chairwoman VELÁZQUEZ. Mr. Shear, and to have all of those things in place, the agency will need resources because when Mr. Graves addressed the question to you about how does this agency compare to other agencies, we have to answer the way you answer it, but also take into account that this is the agency where for the last six, seven years the budget was cut by almost 40 percent. That is another element that we need to factor in.

Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Madam Chair.

Ms. Mills, the Committee has heard that you and your staff have been approving contracts requested by the Office of Inspector General, and we are concerned that this could interfere with an ongoing investigation in violation of the Inspector General statute. Are you approving contracts requested by the Inspector General's Office?

And, if you are, how are you ensuring that there is no interference with the ongoing investigation of the Inspector General's Office?

Ms. MILLS. So the question is are we approving contracts, and maybe you could clarify what sort of contracts.

Mr. LUETKEMEYER. Dealing with the Inspector General. Can you explain the relationship first, I guess, and maybe we can go from there?

Ms. MILLS. Yes. The Inspector General is an independent actor in the agency. They are funded independently. They are very active and work separately from us but we hope collegially and in partnership. We provide information as requested.

Mr. LUETKEMEYER. Do you work together in any sort of contractual obligations?

Ms. MILLS. Not to my understanding, but I am happy to get back to you with an answer on that for the record.

Mr. LUETKEMEYER. Okay. That is fine.

A while ago you mentioned something about you were looking at a number of programs based on a risk-based approach. Can you explain to me what your description of and how you would determine a risk-based approach?

Ms. MILLS. Yes. There are two times, I think I mentioned that. One, overall we have a senior risk team that looks at a number of things because although we have small risk teams that go program by program, we are now looking more on a comprehensive basis on a senior level about how much risk are we taking on in various aspects of what we do.

And consciously, for instance, in the ARC program there may be a mandate or we may decide that a program should be a higher risk program. We should do that consciously.

Mr. LUETKEMEYER. I assume when you are talking about risk, you are talking about how you discern, how you evaluate a loan application and whether you are willing to look at, say, somebody

who is less financially able or less financially stable. Is that where you are going with this?

Ms. MILLS. So, for instance, the ARC Loan Program that is part of the Recovery Act is a much riskier program than the SBA usually does in its profile, and we expect very high default rates from that program, but it is a very important program for this particular time. It is for viable businesses who are experiencing some difficulty, but it is a bridge over troubled water for them.

So we are making a conscious assessment that that is a program where we are executing as part of the Recovery Act, but it is also a program that is not within our normal risk profile. So that is one of the risk assessments.

Mr. LUETKEMEYER. At what point do you pull back on a program if you feel it is becoming too risky?

Ms. MILLS. Well, we set the parameters in the beginning.

Mr. LUETKEMEYER. What are your parameters?

Ms. MILLS. About what the default rates will be. We work a model—

Mr. LUETKEMEYER. What are your default rate specifications?

Ms. MILLS. The default rate specification was in a model that we built with OMB, and it is quite high. It is over 60 percent for the ARC loans, and that is well beyond what we have in any of our other programs. So our expectation is, you know, that is what we will get.

Mr. LUETKEMEYER. Okay. Just one final comment here. Mr. Shear also made the same comment, and we got a question here I was wanting to ask also. A couple of weeks ago we had a group in here that talked about the amount of paperwork that is involved in the 7(a) program, and Mr. Shear made the same comment a minute ago, that it was so cumbersome that many of the people were refusing to participate because of that.

Have you looked into that at all or do you have any plans or is it on your radar at all to try and do something about the paperwork?

My family is in the banking business. I used to do this. It is horrible, absolutely horrible, and to go through this process, and a minute ago you made a comment that you on your Disaster Relief Program here went from 14 days to 18 days. I just wish that it was 14 days on an SBA bank loan.

Ms. MILLS. Well, actually it is less on an SBA bank loan. I believe it is under seven business days, five to seven days—

Mr. LUETKEMEYER. Not in my area, but that is fine. Go ahead.

Ms. MILLS. —for an SBA bank loan, but that is because since we have done process reengineering. That is a continuous task. I am a big advocate of process reengineering, and we need to make these programs effective and efficient for the borrower while maintaining the oversight and getting the information and calculating the information we need so that we have good loans.

But we have significantly reduced the turnaround time and made the process much more friendly for the bank and the borrower.

Mr. LUETKEMEYER. That did not sound like a commitment to me. Are you going to make us a commitment that you are going to look at the 7(a) program and fine-tune that?

Ms. MILLS. Yes, I am.

Mr. LUETKEMEYER. Thank you very much.  
 I yield back. Thank you, Madam Chairman.  
 Chairwoman VELÁZQUEZ. Mr. Moore.

Mr. MOORE. Thank you, Madam Chair.

On July 1st, I hosted a forum in my district for small business owners to discuss access to capital. I have heard from many of my constituents, and I can tell you that there is a great deal of demand for these ARC loans, but last week the Finance and Tax Subcommittee held a hearing on access to capital, and witnesses testified there are very few banks actually making ARC loans.

I know in the Kansas City area, and I am on the Kansas side, but in the whole Kansas City metropolitan area fewer than a dozen of these loans have been made and issued throughout the entire metropolitan area.

One witness last week made the important point, I think, that there is really no incentive for banks to make ARC loans. There is no secondary market in paper work and reg requirements are just as stringent as they are for 7(a) or 504 loans which offer businesses far more than just \$35,000.

What, if anything, can SBA do to make these loans more attractive to lenders and get the process moving?

Ms. MILLS. Thank you.

ARC loans, now we have over 300 lenders. We are lending in 47 states. We are on track to have a limited number of ARC loans available. There will be approximately 10,000 before the funding runs out, and it is likely that demand will greatly exceed supply.

We trained 1,300 lenders in the first week on the call, and lenders have no risk. It is 100 percent guaranteed by the bank, and they do make a profit because although the borrower pays no interest, the SBA funds the interest.

Mr. MOORE. I yield back, Madam Chair.

Chairwoman VELÁZQUEZ. Ms. Bean.

Ms. BEAN. Thank you, Madam Chair.

And thank you both for testifying today and sharing your expertise.

Administrator Mills, I want to commend your leadership at the SBA. We have seen a real rebound in the secondary market. We are seeing increased lending participation from new lenders, lending activity in terms of loans and amounts being lent. So important to the small business community as we try to ease the credit crunch from limiting their access to capital.

But you also talked about process reengineering. I know from our past conversations you are one very committed to continuous improvement. There are some lenders where there needs to be trust rebuilt between the SBA and those lenders because of something in the history that may be undermined that.

What comments would you share that you are doing to help rebuild those relationships where there are lenders who are not participating but who could be participating, whether it be the ARC loans, 7(a), or other SBA lending programs?

And before you answer, I also do want to acknowledge I worked with some of your folks in Chicago. Senator Durbin and I held a forum about not just the roll-out of the ARC lending program, but some of the other things going on to stimulate the secondary mar-

ket, and it was very well received, and your folks did a really good job.

Ms. MILLS. Well, thank you very much.

It is very important that we rebuild and that we build, continue to build our relationships with our lenders. Let me just tell you quickly two things. One is transparency. We are making sure that lenders know how they are rated in our lender oversight system, and that was something of concern to them.

And we also are continuing our programs, our preferred lender programs and our delegated authority programs. Once we have experience with a lender, we are able to do various things, let them use their own paperwork, let them make their own decisions, and then we monitor them, and we find that our best lenders end up in those programs, and it is something that then we have a very good, transparent and trustful relationship between us.

Thank you.

Ms. BEAN. Thank you so much.

I yield back.

Chairwoman VELÁZQUEZ. Mr. Graves.

Mr. GRAVES. I do have another question, Madam Chair.

Administrator Mills, we are concerned not only about the amount of time it takes to implement recommendations, for instance, from the GAO, but we are also concerned about how much time it takes to implement things required by law. You know, we talked a lot about the ARC Program, and we know for a fact that it was supposed to be implemented within 15 days of enactment, which would have been March 2nd. It took until June 15th. We do not know if that was because of a specific provision in the law or if it was because of other diversions.

But my question to you is I would like a commitment from you that the agency is going to implement programs that are required by law before implementing some of the pilot programs that you are working on like the Floor Plan Financing Initiative and some of the other things. We would like to hear you say that you will do those things that are required or that Congress has passed before doing some of the other diversions.

Ms. MILLS. Well, I very much am committed to those things that are required by law, and these Recovery Act things are our top priority list.

I do want to tell you that we did the ARC loan. The reason for the time in the ARC loan is what I mentioned in my opening statement, that this was a risk profile that was very, very much higher than the standard risk profile that the agency takes on, and that is what took the time to create the risk mitigation that would allow us to go out and make these loans appropriately.

But the second thing is the dealer floor plan. The Chairman had mentioned to me the same issue, and you mentioned to me that issue, and we did sequence them because that was the right thing to do behind ARC.

Chairwoman VELÁZQUEZ. Ms. Mills, we are concerned about the fact that there are certain provisions that the Congress passed requiring SBA to issue regulations and to get those programs up and running. In answering your question to Mr. Graves, you mentioned that those were high risk and so you needed to act cautiously.

My question to you: floor financing is not risk?

Ms. MILLS. The floor financing risk profile is the same risk profile as the standard 7(a) risk profile. So that is how it was constructed.

Chairwoman VELÁZQUEZ. Okay. I want to go with you over some of the provisions that we passed, and this happened when you were not the administrator. I just want to make sure that you tell us your intention and commitment to get those provisions up and running.

For example, in the Energy Independence and Security Act, this includes the Energy Efficiency Technology Loan Program and the Renewable Fuel Capital Investment Company. Those provisions have not been implemented.

In the Military Service and Veterans Small Business Reauthorization and Opportunity Act of 2008, this includes Section 105, increasing the number of veteran outreach centers, has not been implemented.

Section 106, study regarding gaps in availability of outreach centers, and Section 208, the Veterans Loan Program, have not been implemented, and these initiatives are in excess of two years.

So can you tell this Committee when the agency will have each of these provisions up and running?

Ms. MILLS. Well, absolutely we are committed to executing those things that you give us to execute. I would like to take the opportunity to come back to you on each of those specific ones and make a timetable so that you can know when to expect it, and if there are any issues why we are not able to do it, we would say so at that time. But at this point I think we need to commit to you to come back to you with what an implementation time and plan for each of those is because they need to be done.

Chairwoman VELÁZQUEZ. Yes, and if there is anything that the Committee needs to do, then that should be part of the legislative package that the administration should be sending to us.

The map of HUBZone eligibility is what the agency and firms use to determine if they can participate. When was the last time that your agency updated its HUBZone map?

Ms. MILLS. The last time the map was updated was last fall. It will be updated again this fall.

Chairwoman VELÁZQUEZ. Ms. Mills, the SBA's latest budget requests nine million for operating the HUBZone Program, and I am going back to the HUBZone Program because it has taken a lot of time to implement some of the recommendations that the Government Accountability Office included in its report.

For operating the HUBZone Program, this worked out to about 700 to 900 per participant in the program. While that seems significant, GAO examined 52 firms in the program and found over half, 29, were ineligible.

So what are taxpayers getting for their \$9 million and what are you going to do about it?

Ms. MILLS. Well, as you know, 10.8 billion went to HUBZone firms, and that is about 11,000 firms, and the specifications are that you have to be a U.S. citizen. You have to be a small business. You have to have your principal office in the HUBZone, and you have to employ 35 percent of your workers inside this HUBZone.

We are, as you know, in the process of executing some oversight improvements in order to make sure that those criteria are met up front in the certification and that those firms remain eligible. And that is where we are doing the site visits, and that is where we plan to improve our processes.

And we need to get that program to a place where we have a better outcome from Mr. Shear.

Chairwoman VELÁZQUEZ. Administrator Mills, I will request from you that you submit to the Committee the following specific time frames for when the SBA will have implemented the following items: an updated written disaster plan that integrates regional marketing information, that distinguishes the agency response to a hurricane in Florida, and in California; the bridge loan programs mandated by the act; the annual report to Congress on disaster assistance. And I would like to have those time frames and responses in our offices in two weeks.

Ms. MILLS. Yes, we can do that.

Chairwoman VELÁZQUEZ. With that the witnesses are dismissed, and I take this opportunity to really thank you for joining us today.

Ms. MILLS. Thank you, Madam Chair.

Mr. SHEAR. Thank you very much.

[Whereupon, at 3:12 p.m., the Committee meeting was concluded.]

NYDIA M. VELAZQUEZ, NEW YORK  
CHAIRWOMAN

SAM GRAVES, MISSOURI  
RANKING MEMBER

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STATEMENT  
of the  
Honorable Nydia Velazquez, Chairwoman  
House Committee on Small Business  
“Hearing on Recent GAO Reports on Small Business Administration Programs”  
Wednesday, July 29, 2009

This past January, the House adopted Rule 11, which requires quarterly hearings on waste, fraud, abuse and mismanagement of programs under the committee’s jurisdiction. In the last six months, we have held 13 oversight hearings on a broad range of issues. Today, we will continue that track record of upholding transparency. Our discussion will include an examination of several SBA programs, and an evaluation of steps that the agency has taken thus far.

In recent months, Americans have been reminded of the important role that small firms play in our economy. The Recovery Act alone contained several provisions designed to help small businesses, and the majority of those measures fall under the SBA umbrella. That is why it is so important that we take time to assess the agency’s progress.

Even as our economy starts to rebound, small firms are facing significant challenges in accessing capital. The Recovery Act took steps to address those obstacles. For one, it increased SBA loan guarantees, giving banks greater incentive to lend. Any policy that puts cash back into the hands of entrepreneurs is critical. And yet, SBA has not implemented these provisions as quickly as we would have hoped. Lending measures are vital, and we need to be sure SBA has the direction it needs to put them in place.

As those of us who have been on the committee for some time know, SBA has a history of struggles with lending. Perhaps the most salient example would be the Disaster Loan Program, which faced significant challenges following Hurricane Katrina. At the time, we asked GAO to take a look at the initiative, and to evaluate SBA’s response to the hurricane. The resulting report led to the passage of the Disaster Response and Loan Improvements Act. Later in this hearing, we are going to hear from GAO about what SBA has accomplished since the act was passed. We will also discuss areas in which work is yet to be done. That way, we can be sure the agency is fully primed--and fully prepared-- the next time around.

In addition to obstacles in lending, SBA has often grappled with contracting issues. Perhaps most notably, the embattled HUBZONE program. It’s important that we have an idea of where that

--more--

initiative stands. Fraud within the program was the primary focus of our oversight hearing in May, and it is this committee's hope that the abuse has since been rooted out.

Oversight is a critical part of the legislative process. For federal agencies, it provides an honest analysis of current programs, and an opportunity to change direction. After all, that is the primary purpose of GAO. As the investigative arm of the U.S. Congress, it does not seek to simply point out wrongs. Its ultimate goal is to provide objective recommendations for efficiency and improvement.

In examining the current state of SBA, it is clear that there is still significant work to be done. And the stakes could not be higher. Our economy, while recovering, has a ways to go. Now, more than ever, we are counting on small firms to drive growth and create jobs. In making sure they are able to do that, we need an SBA that can step up to the plate and fulfill its role as a champion of small businesses. With renewed focus and a fresh direction, I feel confident that SBA can play that role. I look forward to seeing progress unfold in the coming weeks and months.

###

U.S. HOUSE OF REPRESENTATIVES  
SMALL BUSINESS COMMITTEE REPUBLICANS  
REPRESENTATIVE SAM GRAVES, RANKING MEMBER

**Opening Statement of Ranking Member Sam Graves  
Opening Statement  
Oversight Hearing  
July 29, 2009**

I would like to thank the Chairwoman for holding this hearing today on Oversight of the Small Business Administration and its Programs. I also thank Administrator Mills, and Mr. Shear for their participation today. I look forward to hearing their insight and thoughts about these programs at the Small Business Administration.

The Small Business Administration is tasked with a great responsibility, providing the necessary tools for American entrepreneurs to start and grow small businesses. In order to complete this task the SBA employs a variety of programs, including, the HUBZone program, the 8(a) program, the Disaster loan program, and the 7(a) program, just to name a few. It is the responsibility of the Committee on Small Business to ensure that the Small Business Administration operates efficiently and effectively. When it becomes apparent that the SBA is failing to reach any of its goals or to serve its purpose in any way, it is also the duty of this committee to evaluate the problem and assist the Small Business Administration in getting back on track so that it can continue to serve America's entrepreneurs.

In the wake of Hurricanes Katrina and Rita, it became apparent that the Small Business Administration was not equipped to carry out the responsibilities of its Disaster Loan program. As a result, new requirements were put in place to strengthen the program and make sure that it was in fact as efficient and helpful to victims as possible in the event of an emergency. Similarly, the HUBZone program at the Small Business Administration, which

is designed to bring business to areas that have been traditionally underserved, has struggled to correctly identify and enforce those who are eligible to participate in the program. Again, recommendations have been made to begin to remedy the problem.

This hearing provides an opportunity to examine these problems and others with which the Small Business Administration may be struggling, and to ascertain the success they have had in implementing these new requirements. The small businesses of America play a crucial role in maintaining a healthy economy. Consequently, the manner in which the Small Business Administration conducts itself has a direct result on the health of the American economy. This is a very important hearing taking place at a very important time and the testimony that we hear today will have a direct impact on the health of America's small businesses.

Again, I thank the witnesses for attending today and I look forward to hearing their testimony. I yield back.

**U.S. House of Representatives Committee on Small Business**  
**Accountability Update**  
**Karen Mills**  
**Administrator, U.S. Small Business Administration**  
**July 29, 2009**

Chairwoman Velazquez and distinguished members of the Committee: It is an honor to be testifying before you for the first time as the Administrator of the SBA.

Given the Obama Administration's mandate to eliminate and prevent waste, fraud, and abuse in Government programs, I am pleased to have the opportunity to testify at my first of the three annual Committee hearings on this topic. I consider this to be one of my most important responsibilities as Administrator.

As you know, small businesses account for a large percentage of new American jobs every year. Also, approximately half of American workers either own or work for a small business. And small businesses will continue to drive innovation, competitiveness, and the creation of 21<sup>st</sup>-century jobs.

We know that these are tough times for small businesses, making the SBA's mission more important than ever.

- We maintain a lending portfolio that supports nearly \$90 billion, mostly in loan guarantees.
- We are charged with ensuring that at least 23% of federal government contracts are given to small businesses.
- We have a strong, nationwide network of more than 2,000 employees and 14,000 SBA-affiliated counselors who help entrepreneurs and small business owners create and grow their businesses.
- And, we currently have more than 2,000 on-call employees who stand ready to help in the event of a disaster.

The SBA is committed to the principles of integrity, accountability, and effectiveness in all of these programs. These principles are at the core of who we are and what we do as an Agency.

The Recovery Act, which was passed with your help, is a great example of this commitment. Since the Act passed, the SBA has supported nearly \$7 billion in lending approvals to small businesses. Weekly loan dollar volumes have risen over 45% compared to the weeks leading up to the Recovery Act. Also, lenders are becoming more active with SBA lending, with more than 750 now participating who had not made a loan since October 2008. More than half of those had not made a loan since at least 2007.

As you can see on the chart, nearly all of the SBA-designated funds are now in place to support our Recovery Act efforts. We are very pleased that these programs are already helping entrepreneurs and small business owners retain and create thousands of jobs while stimulating our economy.

One of the first actions I took upon becoming Administrator was to make sure that a senior-level Risk Management Team was in place for overseeing the rollout of these Recovery Act programs. Small teams in each program area conducted an extensive risk assessment and analysis. Then, the senior-level team came together and developed a framework to prioritize and evaluate these risks in crafting risk mitigation plans. The Office of the Inspector General worked collaboratively with us to finalize the initial

plans, and these plans continue to evolve and adapt as we make progress in mitigating risk and as program risks change. These efforts continue today as we carefully monitor all Recovery Act programs to help ensure that taxpayer dollars are being spent wisely and transparently.

The rollout of America's Recovery Capital "ARC" loans is a good example of our commitment to manage risk in a conscientious way. This brand new program was designed for a specific purpose and a unique time. As a "bridge over troubled waters" for struggling but viable small businesses, the ARC loan program was not in the SBA's traditional risk profile.

With ARC, we were charged with creating a loan program that was 100% backed by the SBA with zero interest costs for the borrower. We knew from the start that these parameters would result in a considerably higher default rate than our traditional programs. In addition, we knew that targeting struggling-but-viable businesses would require a highly-tailored program design. We also knew that it would require extensive lender outreach and education to make it work.

Our staff put in extraordinary amounts of time and energy to ensure that this program would be both responsible to taxpayers and beneficial for these uniquely-situated small businesses. We worked carefully to develop a new and complex model for this program. We also conducted a rigorous risk management exercise in preparation for offering these loans.

Importantly, we reached out to lenders for feedback to ensure that ARC loans would be a product that they would offer in the marketplace. In fact, we trained lenders from about 1,300 institutions in the weeks leading up to the rollout.

As a result, small businesses across 47 states have benefited from ARC loans in the first six weeks of the program, putting more than \$26 million in the hands of small business owners. Volume in the ARC loan program continues to increase each week.

The high level of discipline, responsibility, and accountability instilled as part of the Recovery Act is now the model that we are applying to all SBA programs and resources.

The senior members of the SBA leadership team are actively addressing outstanding and emerging issues related to waste, fraud, and abuse, in a highly-systematic way, with a top priority on the concerns brought to us by the GAO and the IG.

We are currently focused on ensuring that accountability and transparency are the foundation for all external SBA programs and activities involving access to capital, lender oversight, government contracting, disaster assistance, and more. In addition, we are continually testing and evaluating our internal operating procedures to ensure that our financial management, information technology, and other agency-wide systems are functioning efficiently and effectively.

Optimizing operations is crucial in areas such as disaster assistance. We have made many strides in this area, such as hiring more full-time and on-call employees, acquiring "surge" space to prepare for a major catastrophe, increasing capacity, improving technology, shortening processing times, and more. Also, we continue to put stronger muscle behind marketing and outreach efforts, Electronic Loan Application processing, and other tools that help us reach out directly to communities affected by disaster.

Overall, there are a number of issues that still need to be addressed. Many of these problems built up over a number of years and they will not be solved in a matter of days or even weeks – but they will indeed be solved. Through fact-based analyses and metrics, we will continue to weed out wasteful spending, mismanagement and any elements that might lead to cultures of fraud, abuse, or – just as importantly – complacency in guarding against these problems.

Madam Chairwoman, my vision is that the SBA will operate in a way that allows each of our programs to meet the expectations of Congress and taxpayers. We are committed to providing measurable results for America's entrepreneurs and small business owners, and I look forward to working with the distinguished members of this Committee to make that happen.

I welcome any questions, concerns and comments about any of our programs or efforts.



# Gulf Coast Disaster Activity

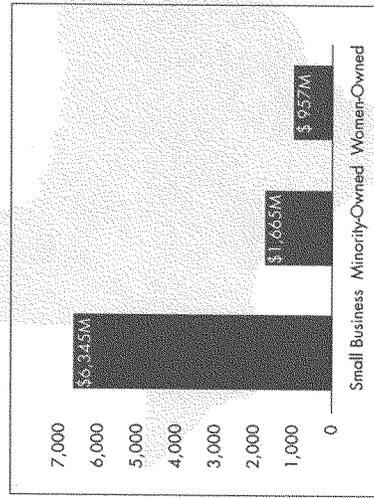
As of June 2009

## Disaster-Related Federal Contracts

Katrina (2005), Rita (2005), Wilma (2005), Ike (2008), Gustav (2008)

### Share of Disaster Contracts to Businesses

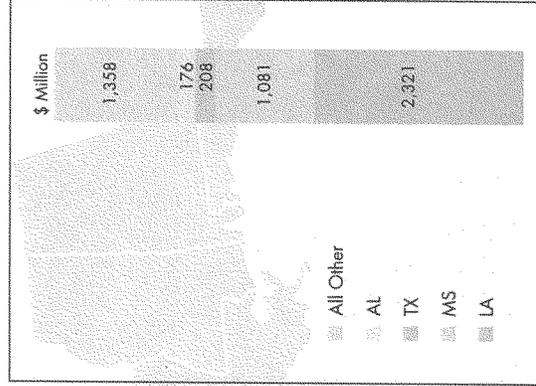
(Total Contracts: \$21.5 Billion)



Disaster Contracts: 29.5% (Small Business), 7.8% (Minority-Owned), 4.5% (Women-Owned)

### Katrina Small Business Contracts by State Performance

(Total Katrina Small Business Contracts: \$5.1 Billion)

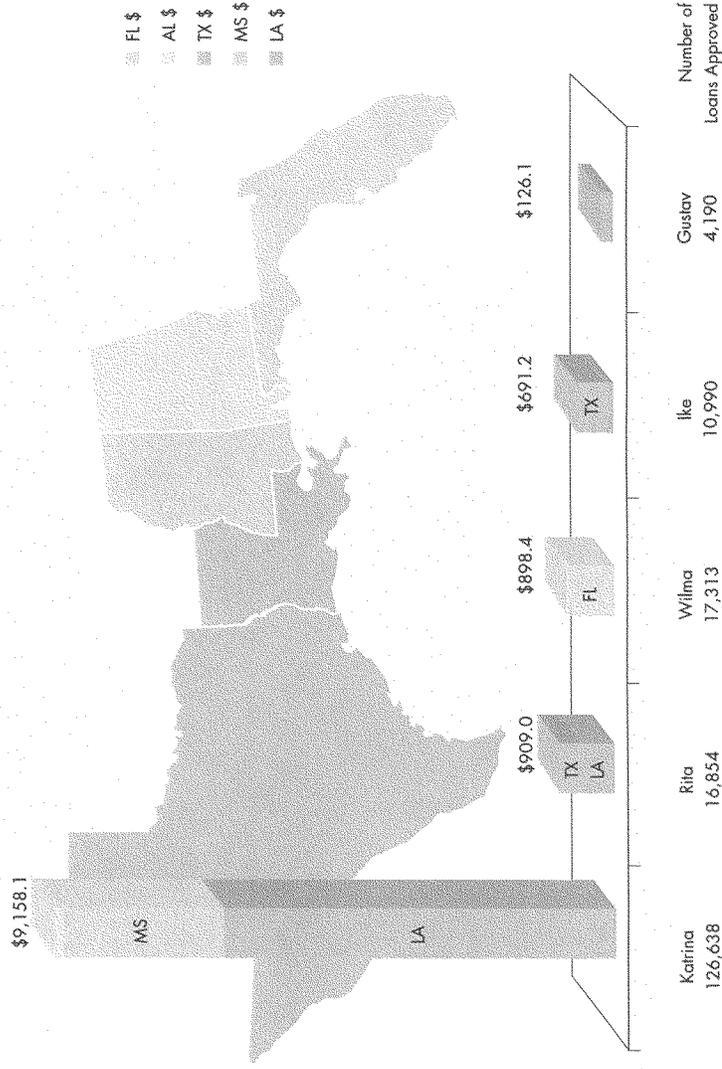


74% of Katrina related small business contracts were performed in LA, MS, TX or AL

# SBA U.S. Small Business Administration

## Gulf Coast Hurricanes 2005-2009

Gross Loans Approved (Dollars in Millions)

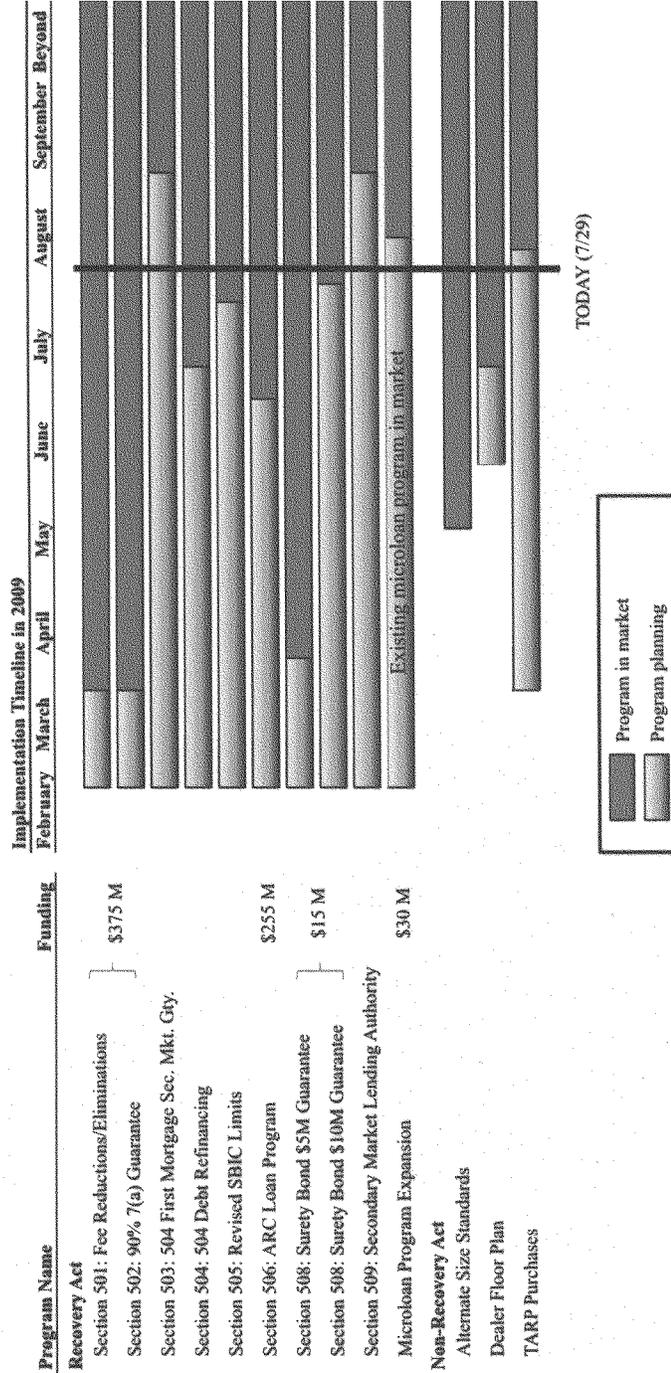


- FL \$
- AL \$
- TX \$
- MS \$
- LA \$





## A Status of Major SBA Initiatives



United States Government Accountability Office

**GAO**

Testimony  
Before the Committee on Small Business,  
House of Representatives

For Release on Delivery  
Expected at 1:00 p.m. EDT  
Wednesday, July 29, 2009

**SMALL BUSINESS  
ADMINISTRATION**

**Additional Steps Should Be  
Taken to Address Reforms  
to the Disaster Loan  
Program and Improve the  
Application Process for  
Future Disasters**

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



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Madam Chairwoman and Members of the Committee:

I am pleased to be here today to discuss our work on reforms made to the Small Business Administration's (SBA) Disaster Loan Program and the impact those reforms had following recent disasters. As you know, SBA plays a critical role in assisting the victims of natural and other declared disasters. SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, businesses of all sizes, and nonprofits recover from disasters such as earthquakes, hurricanes, and terrorist attacks. Since the agency's inception in 1953, SBA has approved more than \$46 billion in disaster loans for homeowners, businesses, and nonprofit organizations. After the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), SBA faced an unprecedented demand for disaster loans, while also being confronted with a significant backlog of applications; therefore, hundreds of thousands of loans were not disbursed in a timely way. Many criticized SBA for what was perceived to be a slow and confusing response to the disasters and one that exposed many deficiencies in the agency's Disaster Loan Program and demonstrated the need for reform. For example, as we stated in our February 2007 report, SBA did not engage in or complete comprehensive disaster plans before the Gulf Coast hurricanes, and this limited logistical disaster planning likely contributed to the initial challenges the agency faced in responding to the 2005 hurricanes.<sup>1</sup> As a result, Congress and SBA agreed that the program needed significant improvements. Since then, SBA has taken several steps to reform its Disaster Loan Program which include creating an online loan application, increasing the capacity of its Disaster Credit Management System (DCMS), and developing a Disaster Recovery Plan (DRP).<sup>2</sup> In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act (Act) to expand steps taken by SBA and require new measures to ensure that SBA is prepared for future catastrophic disasters.<sup>3</sup>

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<sup>1</sup>GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, GAO-07-114 (Washington, D.C.: Feb. 14, 2007).

<sup>2</sup>SBA's use of the term "disaster recovery plan" differs from how it is generally used in referring to an information technology-focused plan designed to restore operability of a system, application, or computer facility following an emergency.

<sup>3</sup>Pub. L. No. 110-246, subtitle B, 122 Stat. 2168 (2008).

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My statement today summarizes our report released at this hearing.<sup>4</sup> This report focuses on (1) the extent to which SBA addressed the requirements of the Act, and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 DRP. To do this work, we identified and analyzed the requirements of the Act and related statutory deadlines; obtained information about SBA's completed, current, and planned reform efforts; reviewed documents and progress reports to determine if requirements had been addressed and deadlines were met; interviewed officials and obtained information on what, if any, challenges exist that may affect SBA's ability to implement certain requirements; and interviewed officials to obtain information about next steps and resources that the agency identified as needed to address any remaining requirements. We also conducted site visits in Iowa and Texas, and obtained information on SBA's performance in the aftermath of the 2008 Midwest floods and Hurricane Ike. We interviewed SBA and Small Business Development Center (SBDC) officials, state and local officials, and representatives of local Chambers of Commerce, economic development organizations, and affected small business owners about what worked well and suggested improvements to SBA's disaster loan processes. Finally, we reviewed results from a survey of SBA loan applicants on their satisfaction with SBA's Disaster Loan Program in 2008. Our work was performed between October 2008 and July 2009 in accordance with generally accepted government auditing standards.

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<sup>4</sup>GAO, *Small Business Administration: Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, GAO-09-755 (Washington, D.C.: July 29, 2009).

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**SBA Fully Addressed  
Half of the Act's  
Provisions, but Has  
Not Yet Established  
Milestones for  
Implementation of  
Remaining  
Requirements**

As of June 2009, SBA fully addressed requirements for 13 of 26 provisions of the Act; partially addressed 8; and took no action on 5 that are not applicable at this time (see table 1). For the 13 provisions SBA fully addressed, the agency's actions included putting in place a secondary facility in Sacramento, California to process loans during times when the main facility in Fort Worth, Texas is unavailable, making improvements to DCMS to track and follow up with applicants, and expanding its disaster reserve staff from about 300 to more than 2,000 individuals. Furthermore, according to SBA and our review, 5 provisions require no action by SBA at this time because they are discretionary or additional appropriations are needed before SBA can satisfy the Act's requirements.

**Table 1. SBA's Status in Addressing Requirements and Deadlines of the 2008 Small Business Disaster Response and Loan Improvements Act**

Section	Description of requirement	Status	Deadline
12061	SBA permitted to make economic injury disaster loans to nonprofits.	●	
12062 <sup>a</sup>	SBA must ensure its disaster assistance programs are coordinated to the maximum extent practicable with FEMA programs.	◐	○
12063	Better public awareness of disaster declaration, application periods, and creation of a marketing and outreach plan.	◐	○
12064	SBA must conduct a study looking at the consistency between standard operating procedures and regulations of the Disaster Loan Program.	●	○
12065	SBA increased loan amounts from \$10,000 to \$14,000 without requiring collateral.	●	
12066	SBA authorizes private contractors to process disaster loans and coordinate efforts with IRS to expedite loan processing.	◐	
12067	SBA must develop, implement, or maintain a centralized information system to track and follow up with disaster loan applicants.	●	
12068	SBA is authorized to increase the deferment period of loans, but the deferment may not exceed 4 years.	N/A	
12069	SBA must put in a place a secondary facility for processing disaster loans in case the primary facility is unavailable.	●	
12070	SBA can not require the borrower to pay any non-amortized amount for the first 5 years after repayment begins.	●	
12071	SBA is authorized to make economic injury disaster loans in cases of ice storms and blizzards.	●	
12072	SBA must develop and implement a major disaster response plan and conduct a disaster simulation exercise at least once every 2 years.	●	●
12073	SBA must assign an individual the disaster planning responsibilities and report to Congress.	●	●
12074	SBA should ensure that the number of full-time equivalent ODA employees is not fewer than 800 and in the disaster cadre not fewer than 1,000.	●	
12075	SBA must develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually.	◐	◐ <sup>b</sup>
12076	SBA must develop long-term plans to secure sufficient office space to accommodate an increased workforce in times of disaster.	●	
12077	SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit.	●	
12078	Maximum disaster loan amount increased from \$1.5 to \$2 million.	●	
12079	<b>SBA may guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$3 million.</b>	N/A	
12081	If the President declares a major disaster, SBA may declare eligibility for additional disaster assistance.	N/A	
12082	SBA permitted to make economic injury disaster loans to eligible small business concerns located anywhere in the US (including outside the disaster area) when the SBA declares eligibility for additional disaster assistance.	N/A	
12083 <sup>a</sup>	SBA must establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area.	◐	○
12084	SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders.	◐	
12085 <sup>a</sup>	SBA must establish an Expedited Disaster Assistance Business Loan Program.	◐	○
12086	SBA is allowed to institute a program to refinance Gulf Coast disaster loans resulting from Hurricanes Katrina, Rita, or Wilma up to an amount no greater than the original loan.	N/A	
12091	SBA must submit reports to Congress on disaster assistance.	◐	◐

● Addressed (initial or ongoing) or deadline met  
 ◐ Partially addressed or some deadlines met  
 ○ Not addressed or missed deadline  
 N/A Not applicable because no action is needed to be taken by SBA at this time, due to provisions' discretionary nature.  
 Source: GAO analysis of the Act and SBA documents.

Note: The Act explicitly establishes appropriation requirements for procurements related to a major disaster for the provision in bold.  
<sup>a</sup>The Act requires SBA to issue regulations for these provisions.

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\*SBA has not yet issued an updated DRP.

While SBA has taken some steps toward implementing the Act, the agency still needs to take additional steps to completely address 8 provisions. According to SBA officials, the agency has not yet completely addressed some provisions that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs—such as the Immediate and Expedited Disaster Assistance Programs—to satisfy requirements of the Act. These programs, which require participation of private lenders, would be designed to provide businesses with access to short-term loans while they are waiting for long-term assistance. Moreover, as required by the Act, SBA has not issued an update of its comprehensive DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own reform efforts.<sup>5</sup> Delays in updates to the DRP limit the agency's ability to adequately prepare for and respond to disasters. Also, SBA has not fully addressed the requirement for providing region-specific marketing and outreach and ensuring the information is made available to SBDCs and other local resources. We consistently heard from regional entities, such as SBDCs and emergency management groups, about the need for more up-front information on SBA's Disaster Loan Program and their expected roles and responsibilities in disaster response efforts. By taking such actions, SBA could leverage the efforts and capacity of SBDCs, as well as state and local emergency management agencies, and ensure that it and they will be better prepared for future events, especially in disaster-prone areas.

Furthermore, the Act established multiple new reporting requirements and while SBA has addressed some of these, the agency has failed to comply with the Act and issue a first annual report on disaster assistance—which was due in November 2008. Specifically, the Act requires that SBA report annually on the total number of SBA disaster staff, major changes to the Disaster Loan Program (such as changes to technology or staff

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<sup>5</sup>Congress acted to signify the importance of an agency-wide plan by including a section of the Act that requires SBA to develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance. According to section 12075, the plan must include a description of the disasters most likely to occur regionally, including (1) an assessment of the disaster; (2) an assessment of the likely demand for SBA assistance; (3) an assessment of SBA's resource needs related to information technology, telecommunications, human resources, and office space; and (4) guidelines on SBA's use of resources and how it intends to coordinate with other agencies. SBA refers to its comprehensive disaster response plan (as required by section 12075) as its DRP.

responsibilities), a description of the number and dollar amount of disaster loans made during the year, and SBA's plans for preparing and responding to possible future disasters.<sup>6</sup> Failure to produce annual reports on schedule can lead to a lack of transparency on the agency's progress in reforming the program. Additionally, 9 provisions set forth in the Act are subject to deadlines, which the agency has had limited success in meeting.<sup>7</sup> The agency also has not developed a plan with expected time frames for addressing the remaining requirements. SBA's not providing reports to Congress and not having an implementation plan in place for addressing the remaining requirements can lead to a lack of transparency about the agency's Disaster Loan Program, program improvement, and capacity to reform the program, as well as its ability to adequately prepare for and respond to disasters.

**SBA's Response Following 2008 Disasters Aligned with Certain Components of its DRP, but SBA's Response to Disaster Victims' Feedback on the Application Process Could Be Improved**

SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with major components of its DRP, such as infrastructure, human capital, information technology, and communications. Additionally, individuals to whom we spoke affected by both disasters considered the agency's overall performance somewhat positive, but believed the disaster loan process could be improved.

In May 2008, floods devastated 85 counties in Iowa (one of several states affected) and in September 2008, Hurricane Ike devastated 50 counties in Texas. SBA and SBDC officials, state and local representatives, private-entity officials, and business owners in Iowa and Texas told us that in the days immediately following the disasters, SBA's Office of Disaster Assistance staff reported to the affected areas and began providing needed disaster assistance. These individuals also said that SBA staff provided outreach and public information about its Disaster Loan Program; distributed application information; assigned knowledgeable customer service representatives to various Disaster and Business Recovery

<sup>6</sup>The Act also states the annual report must include information on some requirements under certain provisions, such as (a) the regulations on coordination with FEMA to assure that applications for disaster assistance are submitted as quickly as practicable as required under section 12062; (b) disaster simulation exercises conducted by the agency under section 12072; (c) updates to the comprehensive DRP required under section 12075; and (d) updates to SBA's plans for securing office space to accommodate an expanded workforce required under section 12076.

<sup>7</sup>As of June 2009, SBA had met some deadlines for four provisions, missed one deadline by 27 days, and missed deadlines for four remaining provisions by many months.

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Centers; and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help—as outlined in SBA's DRP. In addition, our review of SBA's 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents were somewhat satisfied with the assistance SBA provided during other recent disasters.

However, both the individuals we interviewed and survey results indicated areas for improvement and opportunities to increase satisfaction with SBA's disaster loan process. For example, individuals we interviewed and survey responses pointed to concerns about the amount of paperwork required to complete SBA's disaster loan application and the timeliness of loan disbursements. Also, some business owners said they had to provide copies of 3 years of federal income tax returns, although they had signed an Internal Revenue Service (IRS) form 8821—Tax Information Authorization—which allows SBA to get tax return information directly from IRS. To address these concerns, the individuals we interviewed suggested several changes to the program, such as eliminating the requirement that business loan applicants provide copies of IRS tax records; providing partial disbursements earlier in the process; using bridge loans to help ensure disaster victims receive timely assistance; and involving SBA, SBDCs, and state and local officials in joint pre-planning and disaster preparedness efforts.

Though SBA officials told us they have been taking steps to improve the application process, these steps and improvement efforts were not documented. In addition, we found that while SBA conducts an annual customer satisfaction survey, the agency does not appear to incorporate this feedback mechanism into its formal efforts to continually improve the application process. Furthermore, SBA does not appear to have a formal process for addressing identified problem areas and using this experience to improve the application process for future applicants. By establishing such a process to address identified problem areas, SBA could better demonstrate its commitment to improving the Disaster Loan Program. As discussed in our report, while SBA has made progress, the agency has missed opportunities to further improve its Disaster Loan Program, and in particular improve the application process for future applicants.

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**Actions Needed To  
Ensure That SBA  
Addresses Remaining  
Requirements and  
Improves the  
Application Process**

In our report, we made five recommendations to facilitate SBA's progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program. Specifically, we recommended that the Administrator of SBA:

- (1) develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act and ensure regional entities, such as SBDCs, have this information and other Disaster Loan Program information readily available prior to the likely occurrence of a disaster;
- (2) complete the first annual report to Congress on disaster assistance and adhere to the time frame for subsequent reports;
- (3) expeditiously issue an updated DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own reform efforts;
- (4) develop an implementation plan and report to Congress on the agency's progress in addressing the requirements of the Act, including milestone dates for completing implementation; and
- (5) develop and implement a process to address identified problems in the disaster loan application process for future applicants.

SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, SBA cited ongoing efforts since 2005 to improve its application process, such as the electronic loan application, and said the agency has plans to continue its improvement efforts and make them an ongoing priority. However, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

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Madam Chairwoman, this concludes my prepared statement. I would be pleased to respond to any questions you or other Members of the Committee may have.

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**Contacts and  
Acknowledgments**

For further information on this testimony, please contact William B. Shear at (202) 512-8678 or [ShearW@gao.gov](mailto:ShearW@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Kay Kuhlman, Assistant Director; Michelle Bowsky, Beth Faraguna, and Alexandra Martin-Arseneau.

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United States Government Accountability Office

**GAO**

Report to the Chairwoman, Committee  
on Small Business, House of  
Representatives

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July 2009

## SMALL BUSINESS ADMINISTRATION

Additional Steps  
Should Be Taken to  
Address Reforms to  
the Disaster Loan  
Program and Improve  
the Application  
Process for Future  
Disasters



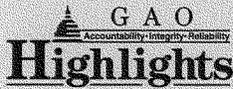
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GAO-09-755

July 2009

**SMALL BUSINESS ADMINISTRATION**

**Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters**



Highlights of GAO-09-755, a report to the Chairwoman, Committee on Small Business, House of Representatives

**Why GAO Did This Study**

After the Small Business Administration (SBA) was widely criticized for its performance following the 2005 Gulf Coast hurricanes, the agency took steps to reform the Disaster Loan Program and Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008 (Act). GAO was asked to determine (1) the extent to which SBA addressed the Act's requirements, and (2) how SBA's response to major disasters in 2008 aligned with key components of its June 2007 Disaster Recovery Plan (DRP). GAO reviewed the Act, as well as SBA information on requirements addressed and steps taken, including the DRP, various reports to Congress, and policy memoranda. GAO also conducted site visits to areas affected by major 2008 disasters, reviewed SBA's customer satisfaction survey, and obtained the opinions of relevant stakeholders.

**What GAO Recommends**

SBA should meet the Act's region-specific marketing and outreach requirements; complete its annual report to Congress; issue an updated DRP; develop an implementation plan for remaining requirements; and develop procedures to further improve the application process. In comments on a draft of this report, SBA generally agreed with the recommendations.

View GAO-09-755 or key components. For more information, contact William Shear at (202) 512-8678 or ShearW@gao.gov.

**What GAO Found**

As of June 2009, SBA met 13 of 26 requirements of the Act, partially addressed 8, and did not take action on 5 which are not applicable at this time (see table). SBA officials told GAO the agency has not yet completely addressed some provisions that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs. For two requirements that will involve private lenders, SBA plans to implement pilots before finalizing regulations. SBA has not yet addressed the Act's requirements for region-specific marketing and outreach and ensured that Disaster Loan Program information is readily available to regional entities, such as Small Business Development Centers (SBDC). By doing so, SBA could leverage the efforts and capacity of local resources and emergency management groups, and ensure that it and they will be better prepared for future disasters. Also, as of June 2009, SBA had not met deadlines to issue an annual report to Congress or an updated DRP. Failure to do so can lead to a lack of transparency on the agency's progress in reforming the program and limit its ability to adequately prepare for and respond to disasters. Furthermore, SBA did not have an implementation plan for addressing the remaining requirements.

**Status of SBA's Efforts to Address Requirements of the Act**

Section	Status	Section	Status
Economic injury disaster loans to nonprofits	●	Disaster planning specialist	●
Coordination with Federal Emergency Management Agency	○	Employees and disaster cadre	●
Public awareness and marketing and outreach	○	Annual disaster response plan	○
Consistency of procedures and regulations	●	Sufficient office space	○
Increased loan amount without collateral	●	Major source of employment change	●
Processing disaster loans and Internal Revenue Service coordination	○	Increased disaster loan amount	●
Information tracking and follow-up system	●	Small business bonding threshold	N/A
Increased deferment period	N/A	Eligibility for additional disaster assistance	N/A
Disaster processing redundancy	●	Additional economic injury disaster loans	N/A
Net earnings clause	●	Private disaster loans	○
Loans after ice storms and blizzards	●	Immediate disaster assistance program	○
Disaster response plan and simulations	●	Expedited disaster assistance program	○
		Gulf Coast disaster loan refinancing program	N/A
		Reports to Congress on disaster assistance	○

● Addressed (initial or ongoing) ○ Partially addressed  
Source: GAO.

SBA's initial response after the 2008 Midwest floods and Hurricane Ike aligned with certain components of its initial DRP, such as using technology and outreach efforts to ensure timely assistance. The individuals GAO interviewed and results from SBA's 2008 Disaster Loan Program Customer Satisfaction Survey provided some positive feedback about SBA's performance following recent disasters. However, interviewees and survey results indicated areas for improvement; in particular, both indicated that application paperwork was burdensome and that the application process needed improvement. SBA officials told GAO that they have been taking steps to improve the application process, but did not provide documentation of such efforts. As a result, it did not appear to have any formal process for identifying problems in the application process and making needed improvements.

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**Abbreviations**

ACSI	American Customer Satisfaction Index
Act	Small Business Disaster Response and Loan Improvements Act of 2008
ARRA	American Recovery and Reinvestment Act of 2009
BRC	Business Recovery Center
CFI	Claes Fornell International
DCMS	Disaster Credit Management System
DRP	Disaster Recovery Plan
DRC	Disaster Recovery Center
EODSPO	Executive Office of Disaster Strategic Planning and Operations
FEMA	Federal Emergency Management Agency
IRS	Internal Revenue Service
ODA	Office of Disaster Assistance
SBA	Small Business Administration
SBDC	Small Business Development Center
SOP	Standard Operating Procedures

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United States Government Accountability Office  
Washington, DC 20548

July 29, 2009

The Honorable Nydia M. Velazquez  
Chairwoman  
Committee on Small Business  
House of Representatives

Dear Madam Chairwoman:

While the Small Business Administration (SBA) is known primarily for its financial support of small businesses, the agency also plays a critical role in assisting the victims of natural and other declared disasters. Since the agency's inception in 1953, SBA has approved more than \$46 billion in disaster loans for homeowners, businesses, and nonprofit organizations. SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, businesses of all sizes, and nonprofits recover from disasters such as earthquakes, hurricanes, and terrorist attacks. After the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), SBA faced an unprecedented demand for disaster loans, while also being confronted with a significant backlog of applications; therefore, hundreds of thousands of loans were not disbursed in a timely way. Many criticized SBA for what was perceived to be a slow and confusing response to the disasters. As a result, Congress and SBA agreed that the program needed significant improvements. Since then, SBA has taken several steps to reform its Disaster Loan Program, which include developing a Disaster Recovery Plan (DRP), creating an online loan application, and increasing the capacity of its Disaster Credit Management System (DCMS). In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act to expand steps taken by SBA and require new measures to ensure that SBA is prepared for future catastrophic disasters.<sup>1</sup>

In response to your request, this report examines reforms made to SBA's Disaster Loan Program and the impact those reforms had following recent disasters. Specifically, this report discusses (1) the extent to which SBA addressed the requirements of the Small Business Disaster Response and Loan Improvements Act of 2008 (Act), and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 DRP.

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<sup>1</sup>Pub. L. No. 110-246, subtitle B, 122 Stat. 2168 (2008).

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To determine the extent to which SBA addressed the requirements of the Act, we identified and analyzed the requirements and related statutory deadlines; obtained information about SBA's completed, current, and planned reform efforts; reviewed documents and progress reports to determine if requirements had been addressed and deadlines were met; interviewed officials and obtained information on what, if any, challenges exist that may affect SBA's ability to implement certain requirements; and interviewed officials to obtain information about next steps and resources that the agency identified as needed to address any remaining requirements. To assess how SBA's response following the major disasters of 2008 aligned with key components of its DRP, we conducted site visits in Iowa and Texas, and obtained information on how SBA's performance in the aftermath of the 2008 Midwest floods and Hurricane Ike was viewed. We interviewed SBA and Small Business Development Center (SBDC) officials, state and local officials, and representatives of local Chambers of Commerce, economic development organizations, and affected small business owners about what worked well and suggested improvements to SBA's disaster loan processes. We also reviewed results from a survey of SBA loan applicants on their satisfaction with SBA's Disaster Loan Program in 2008. Finally, we compared data for the 2008 disasters with agency performance goals. Appendix I contains a detailed description of our scope and methodology.

We conducted this performance audit from October 2008 through July 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

SBA fully addressed requirements for 13 of 26 provisions of the Act, as well as some deadlines associated with them; partially addressed 8 provisions; and took no action on 5 that are not applicable at this time. For the 13 provisions SBA fully addressed by June 2009, the agency's actions included implementing requirements to make disaster loans to nonprofit organizations, increasing loan amounts from \$10,000 to \$14,000 without requiring collateral, and establishing a second facility to process disaster loans in case the primary facility is unavailable. While SBA has taken some steps toward implementing the Act, the agency still needs to take additional steps to completely address 8 provisions. According to SBA officials, the agency has not yet completely addressed some provisions

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that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs—such as the Immediate and Expedited Disaster Assistance Programs—to satisfy requirements of the Act. Moreover, as required by the Act, SBA has not issued an update of its comprehensive DRP. SBA also has not fully addressed the requirement for providing region-specific marketing and outreach and ensuring the information is made available to SBDCs and other local resources—as required by another provision in the Act. According to SBA and our review, 5 provisions require no action by SBA at this time because they are discretionary or establish the need for additional appropriations to satisfy the Act's requirements. Finally, 9 provisions set forth in the Act are subject to deadlines, which the agency has had limited success in meeting. As of June 2009, SBA had met some deadlines for 4 provisions, missed one deadline by 27 days, and missed deadlines for 4 remaining provisions by many months. SBA officials offered several reasons for missing deadlines. Specifically, the officials said they needed time to issue new regulations and create new programs—and pilot them—before making final decisions about implementation. For example, the Immediate and Expedited Disaster Assistance Programs are part of a pilot, because SBA sees a need to test how private lenders would administer such programs if implemented. Furthermore, as of June 2009, SBA has not issued an annual report on disaster assistance, which was required by November 2008. Though the Act requires that SBA provide annual updates to its comprehensive DRP, SBA has not yet updated its June 2007 plan. The agency also has not developed a plan with expected time frames for addressing the remaining requirements. SBA's not providing such reports to Congress, as required, can lead to a lack of transparency about the agency's Disaster Loan Program and its progress and capacity to reform the program, as well as its ability to adequately prepare for and respond to disasters.

SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with major components of its DRP, such as infrastructure, human capital, information technology, and communications and outreach. Additionally, individuals to whom we spoke affected by both disasters considered the agency's overall performance somewhat positive, but believed the disaster loan process could be improved. In May 2008, floods devastated 85 counties in Iowa (one of several states affected) and in September 2008, Hurricane Ike devastated 50 counties in Texas. SBA and SBDC officials, state and local representatives, private-entity officials, and business owners in Iowa and Texas told us that in the days immediately following the disasters, SBA's Office of Disaster Assistance staff reported to the affected areas and began providing needed disaster

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assistance. These individuals also said that SBA staff provided outreach and public information about its Disaster Loan Program; distributed application information; assigned knowledgeable customer service representatives to various Disaster and Business Recovery Centers (DRC and BRC); and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help—as outlined in SBA's DRP. In addition, our review of SBA's 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents were somewhat satisfied with the assistance SBA provided during other recent disasters. However, both the individuals we interviewed and survey results indicated areas for improvement and opportunities to increase satisfaction with SBA's disaster loan process. For example, individuals we interviewed and survey responses pointed to concerns about the amount of paperwork required to complete SBA's disaster loan application and the timeliness of loan disbursements. To address these concerns, the individuals we interviewed suggested several changes to the program, such as eliminating the requirement that applicants provide copies of Internal Revenue Service (IRS) tax records; providing partial disbursements earlier in the process; using bridge loans to help ensure disaster victims receive timely assistance; and involving SBA, SBDCs, and state and local officials in joint pre-planning and disaster preparedness efforts. Though SBA officials told us they have been taking steps to improve the application process, these steps and improvement efforts were not documented. In addition, we found that while SBA conducts its annual survey, the agency does not appear to incorporate this feedback mechanism into its formal efforts to continually improve the application process. Furthermore, SBA does not appear to have policies and procedures in place for improving the application, nor does it appear to have a formal process for identifying problems areas within its program and using this experience to improve the application process for future applicants.

To facilitate SBA's progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program, we are recommending that the Administrator of SBA (1) develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act and ensure regional entities, such as SBDCs, have this information and other Disaster Loan Program information readily available prior to the likely occurrence of a disaster; (2) complete the first annual report to Congress on disaster assistance and adhere to the time frame for subsequent reports; (3) expeditiously issue an updated DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own reform efforts; (4) develop an implementation plan and report to Congress on the agency's progress in addressing the requirements of the

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Act, including milestone dates for completing implementation; and (5) develop and implement a process to address identified problems in the disaster loan application process for future applicants.

We provided SBA with a draft of this report for review and comment. In comments provided to us in an email, SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, SBA cited ongoing efforts since 2005 to improve its application process, such as the electronic loan application, and said the agency has plans to continue its improvement efforts and make them an ongoing priority. However, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

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## Background

SBA's Disaster Loan Program, which has been a part of the agency since its inception in 1953, is the primary federal program for funding long-term recovery assistance. SBA's Office of Disaster Assistance (ODA) responds to disasters and administers the program—which provides affordable, timely and accessible financial assistance following a disaster to homeowners, renters, businesses of all sizes, and nonprofit organizations. SBA does not provide disaster grants; rather, this financial assistance generally is available in the form of direct, low-interest loans and is the only SBA program not limited to small businesses.

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## Overview of Disaster Loans and Application and Disbursement Process

A Presidential disaster declaration puts into motion long-term federal recovery programs, such as the Disaster Loan Program, but SBA is not a "first responder" after a disaster. Rather, local government emergency services assume the role of first responders, with help from state and volunteer agencies. For catastrophic disasters, and if a governor requests it, federal resources can be mobilized through the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) for search and rescue, electrical power, food, water, shelter, and other basic human needs. SBA typically responds to a disaster within 3 days by

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sending ODA field staff to the affected area to begin providing public information about SBA's services.

Once a disaster is declared, SBA, by law, is authorized to make two types of disaster loans: (1) physical disaster loans, and (2) economic injury disaster loans. Physical disaster loans are for the permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property.

That is, SBA provides loans to cover repair costs that FEMA or other insurance has not already fully compensated or covered.<sup>2</sup> The loans are intended for repair or replacement of the disaster victim's damaged property to its pre-disaster condition. Interest rates are periodically adjusted and SBA calculates rates after each disaster. By law, the interest rates depend on whether each applicant has credit available elsewhere. If SBA determines the applicant is unable to borrow from non-government sources or does not have sufficient funds, then the applicant is considered to not have credit available elsewhere. SBA offers two levels of interest rates, a low rate for applicants who have no credit available elsewhere and a higher rate for applicants with credit available elsewhere. Economic injury disaster loans provide small businesses, including agricultural cooperatives and private nonprofit organizations, with necessary working capital until normal operations can resume after a disaster. Loan funds are intended to cover operating expenses small businesses could have paid had the disaster not occurred. The interest rates on an economic injury disaster loan cannot exceed 4 percent (see table 1).

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<sup>2</sup>SBA can lend individuals amounts up to \$200,000 for their primary residence and \$40,000 for household goods and personal effects and can lend businesses up to an aggregated \$2 million for physical and economic injury disaster loans, before the individuals or business owners receive their insurance recovery. In these cases, the loan recipient must use the insurance recovery funds to reduce the balance of the SBA disaster loan. Even individuals or business owners who believe they have full insurance coverage are encouraged to apply for an SBA loan because their insurance recovery may turn out to be only partial, or their damage may exceed insurance policy limits.

**Table 1: SBA's Disaster Loans**

Type	Funds use	Eligibility	Lending limit	Interest Rate*
Physical disaster loans	Repair or replace personal residences, individual personal property or real estate to its pre-disaster condition.	<ul style="list-style-type: none"> <li>• Homeowners</li> <li>• Renters</li> <li>• Businesses (all sizes)</li> <li>• Private, nonprofits</li> </ul>	<ul style="list-style-type: none"> <li>• \$200,000 – personal residences</li> <li>• \$40,000 – individual personal property</li> <li>• \$2 million – aggregate for businesses' and nonprofits' real estate, inventories, machinery, equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Varies, but generally for those who cannot obtain credit elsewhere, interest is capped at 4 percent; for those who can obtain credit elsewhere, interest is capped at 8 percent</li> </ul>
Economic injury disaster loans	Assist organization through the disaster recovery period and cover operating expenses the business could not pay because of the disaster.	<ul style="list-style-type: none"> <li>• Small businesses</li> <li>• Small agricultural cooperatives</li> <li>• Private nonprofits</li> </ul>	<ul style="list-style-type: none"> <li>• \$2 million aggregate amount</li> </ul>	<ul style="list-style-type: none"> <li>• Capped at 4 percent</li> </ul>

Source: GAO analysis of SBA documents.

\*Interest rates are periodically adjusted and vary for each disaster.

Immediately following a disaster, SBA public information officers are responsible for providing information and outreach to victims about SBA's Disaster Loan Program and SBA customer service representatives are available to help home and business owners complete loan applications. However, certain restrictions and guidelines apply to SBA's Disaster Loan Program. For example, individuals must first register with FEMA and obtain a registration number before SBA can issue an application. SBA has separate applications for home and business loans and offers these applications in both paper and electronic form. Furthermore, SBA only will make a disaster loan if there is reasonable expectation that the loan can be repaid—loan applicants must have a credit history acceptable to SBA and demonstrate their ability to repay all outstanding loans. They must also apply within certain time frames. Typically, loan applications for physical disaster loans must be received by SBA within 60 days from the date of the disaster declaration, while applications for economic injury disaster loans must be received within 9 months.<sup>3</sup> In addition, SBA generally requires collateral for all loans greater than \$14,000, recently increased from \$10,000 pursuant to section 12065 of the Act.

<sup>3</sup>For a catastrophic disaster, application periods can be extended at the state governor's request.

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Once SBA receives a completed loan application, staff in its Loan Processing and Disbursement Center review eligibility, check credit, and calculate repayment ability. Applicants declined at this stage always receive notification in writing from SBA. The letter provides reasons for the declination and advises the applicant of its reconsideration rights. Applications that are not declined are assigned to an SBA loss verifier, who is responsible for contacting each applicant to make an appointment to verify the physical losses and estimate a dollar value for damaged real estate and personal property. Next, staff underwrite the application and review in greater depth the applicant's credit history, repayment ability, and eligibility. Unless the application is withdrawn, SBA processes each loan application to an approved or declined status.

SBA notifies approved applicants and makes arrangements to execute the loan closing. Before SBA can make any disbursements, the borrower must execute loan closing documents and return them to SBA within 60 days. Upon receipt of the closing documents, SBA issues the first disbursement of the unsecured portion of the loan—up to \$14,000 for physical disaster loans. After SBA has verified that lien requirements on collateral property have been met, it can disburse the additional secured portion of the physical disaster loan based on need or construction progress. Because no physical repairs are associated with economic injury disaster loans, SBA generally makes full disbursement for these loans once collateral and insurance requirements are met. SBA monitors all disbursements to ensure that loan funds are used in accordance with the loan authorization and agreement.

ODA and the newly created Executive Office of Disaster Strategic Planning and Operations (EODSPO), both headquartered in Washington, D.C., are responsible for responding to disasters, coordinating with other disaster recovery entities, and administering the agency's Disaster Loan Program. ODA has four field offices, which are the Customer Service Center located in Buffalo, New York; two disaster Field Operations Centers located in Atlanta, Georgia and Sacramento, California; and a centralized Loan Processing and Disbursement Center located in Fort

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Worth, Texas.<sup>4</sup> ODA also has a Personnel and Administrative Services Center and a DCMS Operations Center in Herndon, Virginia. Organizationally the associate administrator of ODA reports directly to the EODSPO chief; and the EODSPO chief reports to the SBA Administrator. In addition, ODA can utilize SBA district offices, SBDCs, and SCORE (formerly called Service Corps of Retired Executives) for local marketing and outreach efforts.<sup>5</sup>

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#### Disaster Planning and SBA's DRP

Among the lessons learned from the 2005 Gulf Coast hurricanes was the need for a more organized, formal, and pre-planned approach for providing SBA services in response to a disaster. Members of Congress found that it was necessary for SBA to develop and implement a written, comprehensive disaster plan.<sup>6</sup> Congress acted to signify the importance of an agency-wide plan that provided guidance and procedures governing preparations for, and response to, declarations of disasters of various dimensions, including catastrophic disasters, by including several related requirements in the Act. Thus, one section of the Act requires that SBA develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance.<sup>7</sup> Our prior work also revealed the need for SBA to conduct comprehensive disaster planning. For example, as we stated in our February 2007 report, SBA did not engage in or complete comprehensive disaster plans before

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<sup>4</sup>The Disaster Field Operations Center-East, in Atlanta, handles field operations and public information activity for disaster declarations in the states east of the Mississippi River, plus Washington, D.C., Minnesota, the U.S. Virgin Islands and Puerto Rico. The Disaster Field Operations Center-West, in Sacramento, handles field operations and public information activity for disaster declarations in all states west of the Mississippi River, Alaska, Hawaii, and the U.S. Pacific Islands (Guam, American Samoa, Marshall Islands, Northern Mariana Islands, and Micronesia).

<sup>5</sup>SCORE is a nonprofit government-chartered corporation and SBA resource partner that focuses on entrepreneur education and training, and the creation, growth, and success of small businesses nationwide.

<sup>6</sup>See S. Rep. No. 110-64, at 5 (2007) (expressing concern over the SBA not having a "proactive, comprehensive disaster response plan in place in August 2005").

<sup>7</sup>According to section 12075, Comprehensive Disaster Recovery Plan, the plan must include a description of the disasters most likely to occur regionally, including (1) an assessment of the disaster; (2) an assessment of the likely demand for SBA assistance; (3) an assessment of SBA's resource needs related to information technology, telecommunications, human resources, and office space; and (4) guidelines on SBA's use of resources and how it intends to coordinate with other agencies.

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the Gulf Coast hurricanes, and this limited logistical disaster planning likely contributed to the initial challenges the agency faced in responding.<sup>8</sup> We recommended that SBA develop time frames for completing key elements of a disaster management plan and a long-term strategy for acquiring office space, and assess whether the use of disaster simulations or catastrophe models would enhance the disaster planning process. In August 2008, SBA provided information to us on how the agency had implemented our recommendation to use disaster simulations to enhance its disaster planning. Other GAO reports, reports by other investigative agencies, and disaster management experts long have stated that comprehensive planning can help organizations prepare for potential disasters and mitigate their effects.

In the wake of the Gulf Coast hurricanes, SBA officials said that they recognized the importance of disaster planning—to improve planning, they created the agency's first DRP and also conducted their first simulation.<sup>9</sup> In creating the DRP, SBA acknowledged the need for a systematic approach to carry out the agency's disaster assistance mission and ensure coordination, awareness, and support throughout the agency. The plan, which was issued on June 1, 2007, was designed to provide procedures to better handle future disasters of all sizes. Its major components—infrastructure, human capital, information technology, and communications and outreach—are designed to help ensure that necessary resources are available, (including reserve corps, staff trained in disaster loan processing, office space, and information technology) and that SBA has established an enhanced approach for communicating with the public and coordinating with other disaster assistance groups.

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<sup>8</sup>GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, GAO-07-114 (Washington, D.C.: Feb. 14, 2007).

<sup>9</sup>SBA refers to its comprehensive disaster response plan (as required by section 12075) as its DRP. SBA's use of the term "disaster recovery plan" differs from how it is generally used in referring to an information technology-focused plan designed to restore operability of a system, application, or computer facility following an emergency.

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**Small Business Disaster  
Response and Loan  
Improvements Act of 2008**

The Act comprises 26 provisions with substantive requirements for SBA; some with specific deadlines and some needing appropriations, and includes requirements that SBA must meet regarding disaster planning and response, disaster lending, and reporting.<sup>10</sup> For instance, the Act includes provisions to improve SBA's coordination with FEMA, require that the agency conduct biennial disaster simulations, create a comprehensive disaster response plan, and improve communication with the public when disaster assistance is made available. It includes requirements to improve ODA's infrastructure, appoint an official to oversee the disaster planning and responsibilities of the agency, and establish reporting requirements for various reports to Congress. The Act also includes provisions to create new SBA disaster loan programs, such as the Immediate Disaster Assistance Program that would provide small dollar loans immediately following a disaster and the Expedited Disaster Assistance Loan Program that would provide expedited disaster assistance to businesses.

The Act contains 9 provisions that establish deadlines for specific SBA actions that range from 30 days to 1 year after the Act's enactment (see table 2). For example, the Act requires SBA to conduct a study of whether the standard operating procedures (SOP) for loans offered are consistent with the regulations for administering the Disaster Loan Program and report to Congress on the study findings within 180 days after the Act's enactment. Additionally, the Act establishes multiple reporting requirements for SBA. One example of these reporting requirements is that SBA must submit an annual report to Congress on disaster assistance within 45 days after the end of each fiscal year. This annual report must include a report on the comprehensive disaster response plan, among other things.

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<sup>10</sup>In June 2008, as part of the Food, Conservation, and Energy Act (also commonly known as the Farm Bill), Pub. L. No. 110-246, 122 Stat. 1651, Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008. This law repealed and replaced a duplicative enactment, which had been enacted on May 22, 2008. However, the Farm Bill contains a provision that generally preserved the prior act's date of enactment if it would provide an earlier effective date than the date of enactment of the Farm Bill. Although the Act was enacted on June 18, 2008, the enactment date for purposes of determining the effective date is May 22, 2008. Therefore, all statutory deadlines presented in this report are calculated from May 22, 2008.

**Table 2: Small Business Disaster Response and Loan Improvements Act Statutory Deadlines**

Requirement (Act section number)	Statutory deadline <sup>a</sup>
(1) SBA must issue regulations about coordination with FEMA to ensure that each application for disaster assistance is submitted as quickly as practicable (12062).	270 days
(2) SBA must create a marketing and outreach plan (12063).	90 days
(3) SBA must report to Congress on the findings and recommendations of a study looking at consistency between regulations and SOPs (12064).	180 days
(4) SBA must submit a report to Congress detailing the amendments to the disaster response plan—specifically the report must include updates on 12 items (12072).	3 months
(5) SBA must report to Congress about the individual assigned disaster planning responsibilities and related information (12073).	30 days
(6) SBA must develop, implement, or maintain a comprehensive disaster response plan and update it annually or following any major disaster in which the SBA Administrator declares eligibility for additional disaster assistance (12075).	Various <sup>b</sup>
(7) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing permanent criteria for qualified private lenders to make disaster loans;</li> <li>• report to Congress on progress of the regulations (12083).</li> </ul>	<ul style="list-style-type: none"> <li>• 1 year</li> <li>• 6 months</li> </ul>
(8) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing and implementing an Expedited Disaster Assistance Loan Program;</li> <li>• report to Congress on progress of the program (12085).</li> </ul>	<ul style="list-style-type: none"> <li>• 1 year</li> <li>• 5 months</li> </ul>
(9) SBA must submit to Congress reports on staffing, accounting, activities; disaster assistance; and contracting and loan approval rates (12091).	Various <sup>c</sup>

Source: GAO.

<sup>a</sup>Deadlines are calculated based on number of days or months after May 22, 2008. See footnote 10.<sup>b</sup>According to the Act, a comprehensive plan is due within 180 days of the Act's enactment and must be updated annually or following any major disaster in which the SBA Administrator declares eligibility for additional disaster assistance thereafter.<sup>c</sup>According to the Act, the staffing, accounting, and activities reports are due monthly. The deadline for the report on disaster assistance is 45 days after the end of the fiscal year—which runs from October 1 through September 30—and this report is due annually. The deadlines for the reports on contracting and loan approval rates are 6 months after the Act's enactment date.

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**SBA Fully Addressed Half of the Act's Provisions, but Has Not Yet Established Milestones for Implementation of Remaining Requirements**

SBA has fully addressed requirements for 13 of 26 provisions of the Act, partially addressed 8, and took no action on 5 that are not applicable at this time. In addition, 9 of the 26 provisions are subject to deadlines and the agency has had limited success in meeting them. SBA officials told us the agency did not fully address requirements for some provisions because the agency has to make extensive changes to current programs or create new programs in order to comply with the Act's requirements. SBA officials also told us that the agency needed time to pilot new programs, such as private disaster assistance programs, before making final decisions about implementation. Also, SBA has not issued its first annual report to Congress on disaster assistance, due November 2008, issued an annually updated DRP since its initial June 2007 plan, or addressed how it would market its Disaster Loan Program in different areas of the country and adapt likely scenarios for certain regions prone to disasters. Furthermore, the agency did not provide milestone dates for completing implementation of these requirements and, as a result, Congress does not have reliable information on the extent to which SBA has addressed the requirements and made improvements to its program.

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**SBA Has Addressed Half of the Act's Provisions and Five Other Provisions Do Not Require Any Actions at This Time**

SBA has fully addressed 13 of the 26 provisions of the Act, partially addressed 8, and took no action on 5 that are not applicable at this time.<sup>11</sup> For the 13 provisions SBA addressed, the agency's actions included making improvements to the agency's disaster loan planning and response; augmenting infrastructure, information technology, and staff; and improving disaster lending by increasing access to funds for loan applicants. For example, to improve the agency's disaster loan planning and response, the agency conducted a study on the consistency between the Disaster Loan Program's SOPs and regulations and reported its findings to Congress.<sup>12</sup> SBA has also taken steps to improve its infrastructure, information technology, and staff by putting in place a secondary facility in Sacramento, California to process loans during times when the main facility in Fort Worth, Texas is unavailable and by making improvements to DCMS to track and follow up with applicants.

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<sup>11</sup>Appendix II provides details on the 26 provisions of the Act and SBA's status in addressing the requirements.

<sup>12</sup>A report to the Senate Committee on Small Business and Entrepreneurship and U.S. House of Representatives Committee on Small Businesses, *Study on Consistency Between U.S. Small Business Administration Regulations and Standard Operating Procedures*. (Washington, D.C.: December 15, 2008).

Additionally, according to SBA officials, the agency increased DCMS' capacity from 2,000 to more than 12,000 concurrent users and expanded their disaster reserve staff from about 300 to more than 2,000 individuals.<sup>13</sup> Furthermore, the agency increased access to funds by making nonprofits eligible for economic injury disaster loans, increasing loan amounts from \$10,000 to \$14,000 without requiring collateral, and changing the appropriate maximum disaster loan amount from \$1.5 to \$2 million. See table 3 for other requirements of the Act that SBA has addressed.

**Table 3: Requirements of Act That SBA Addressed, as of June 2009**

Subject of requirement	SBA actions taken (Act section number)
Disaster loan planning and response	<ul style="list-style-type: none"> <li>Studied and reported to Congress (December 2008) on the consistency between the Disaster Loan Program's SOPs and regulations (12064).</li> <li>Changed requirements (July 2008), for loans greater than \$1 million, so that the borrower does not have to pay any non-amortized amount for the first 5 years of the repayment period (12070).</li> <li>Submitted a report to Congress (August 2008) detailing planned updates to the DRP and conducted disaster simulation exercises (12072).</li> </ul>
Infrastructure, information technology, and staff	<ul style="list-style-type: none"> <li>Updated and maintained SBA's centralized information system (DCMS) to track and follow up with applicants and increased the system's capacity from 2,000 to more than 12,000 concurrent users (12067).</li> <li>Put in place an alternative facility in Sacramento, California for processing loans in the event the primary facility in Fort Worth, Texas is unavailable (12069).</li> <li>Secured office space and made plans to accommodate an increased workforce in times of disaster (12076).</li> <li>Established EODSPO and appointed a chief (June 2008) as director of all disaster planning responsibilities (12073).</li> <li>Maintained more than 1,000 full-time ODA staff and more than 2,000 disaster reserve staff (12074).</li> </ul>
Disaster lending	<ul style="list-style-type: none"> <li>Authorized (July 2008) economic injury disaster loans for nonprofit organizations (12061).</li> <li>Increased (July 2008) loan amounts from \$10,000 to \$14,000 without requiring collateral (12065).</li> <li>Allowed applicants to apply for economic injury disaster loans in cases of ice storms and blizzards (12071).</li> <li>Changed requirements (April 2009) so that SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit (12077).</li> <li>Increased (July 2008) maximum loan amount from \$1.5 to \$2 million (12078).</li> </ul>

Source: GAO analysis of the Act and SBA documents.

<sup>13</sup>SBA's disaster reserve consists of both active and ready reserve staff. SBA estimates 75 percent of their active reserve staff and 50 percent of their ready reserve staff will be available when called upon to quickly staff disaster field offices in the event of a major disaster.

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Based on discussions with SBA officials and our review, 4 of the 26 provisions require no action by SBA at this time due to their discretionary nature.<sup>14</sup> More specifically, 1 provision provides SBA the discretion to offer persons receiving disaster loans an option to defer repayment on their loans and another provision provides SBA discretionary authority to refinance Gulf Coast disaster loans. Two additional provisions only can be triggered if the Administrator determines a disaster is a catastrophic event and authorizes additional assistance. The statute states that the determination is only to be made for the most extraordinary and devastating events. Accordingly, SBA officials told us that the agency needs to take no action unless a disaster is declared a catastrophic event and the Administrator authorizes additional funding. Agency officials told us SBA is able to carry out the requirements of these two sections and stated that after the September 11, 2001, terrorist attacks in New York, the agency carried out one of the requirements by issuing regulations and permitting loans to small businesses located outside of the disaster area.<sup>15</sup>

Additionally, we found that at least 1 provision—the Small Business Bonding Threshold—requires no action at this time because it would require the agency to obtain additional appropriations.<sup>16</sup> For example, the provision states that the SBA Administrator may carry out the requirements of the section only with amounts appropriated in advance specifically to carry out the requirements. Accordingly, SBA would need to have an appropriation for implementation of that provision. However, the American Recovery and Reinvestment Act of 2009 (ARRA) generally increased the maximum contract amount for SBA bond guarantee to \$5 million until September 2010.<sup>17</sup> According to SBA's Office of General Counsel, under ARRA, small business contracts up to \$5 million are eligible for an SBA bond guarantee up to September 30, 2010.

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<sup>14</sup>Sections 12068, 12081, 12082, and 12086.

<sup>15</sup>13 C.F.R. pt. 123, subpt. G (2009). The travel restrictions placed around the disaster area adversely affected small businesses located throughout the United States because distributors that served New York businesses were located throughout the country. Accordingly, SBA expanded the eligibility for economic injury disaster loans to include businesses located outside of the disaster area.

<sup>16</sup>Under Section 12079, Small Business Bonding Threshold, SBA may for any procurement related to a major disaster, guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.

<sup>17</sup>Pub. L. No. 111-5, title V, 123 Stat. 115, 151, 158-161 (2009).

**SBA Has Taken Steps to Partially Address the Remaining Requirements, but the Agency Has Not Demonstrated How It Will Address the Requirements for Region-Specific Marketing and Outreach**

SBA partially addressed 8 provisions of the Act by taking some actions to implement the requirements. For example, 1 provision requires SBA to update the comprehensive DRP annually; while the agency originally issued a plan in June 2007 and agency officials have participated in leadership seminars to discuss revisions to the plan, SBA has failed to comply with the Act and issue an updated plan, as required by section 12075. Moreover, the existing plan does not include information on, nor is there separate information addressing, as the Act requires in section 12063, regional marketing information. Additionally, at least 4 provisions require SBA to either create new or make changes to existing programs. Three of these 4 provisions require SBA to issue regulations within 1 year of the Act's enactment, but the agency only has established regulations in draft form and has not issued any final regulations.<sup>18</sup> For the 8 partially addressed provisions, our analysis was based on actions described by SBA officials (see table 4).

**Table 4: Requirements of Act That SBA Partially Addressed, as of June 2009**

Description of requirement (Act section number)	SBA actions taken	SBA planned actions
(1) SBA must ensure that their disaster assistance programs are coordinated with FEMA programs to ensure that each application for disaster assistance is submitted as quickly as practicable. (12062)	<ul style="list-style-type: none"> <li>Met with FEMA officials to coordinate programs</li> <li>Developed <b>draft regulations</b><sup>a</sup> and sent to FEMA for inter-agency review</li> </ul>	<ul style="list-style-type: none"> <li>Publish direct final rule in <i>Federal Register</i></li> </ul>
(2) SBA must coordinate application periods with FEMA, increase public awareness of disasters, and create a marketing and outreach plan, including providing regional marketing and ensuring the information is made available to SBDCs. (12063)	<ul style="list-style-type: none"> <li>Coordinated application periods for disaster assistance with FEMA</li> <li>Communicated information to disaster loan applicants through press releases, newsletters, and fact sheets</li> <li>Submitted notification reports to Congress</li> </ul>	<ul style="list-style-type: none"> <li>SBA believes this requirement has been met<sup>b</sup></li> </ul>
(3) SBA is authorized to enter into agreements with private contractors to process disaster loans and SBA must coordinate efforts with IRS to ensure tax records are shared with loan processes quickly. (12066)	<ul style="list-style-type: none"> <li>Entered into contracts with private companies</li> <li>Met with IRS to discuss changes to tax information sharing processes</li> </ul>	<ul style="list-style-type: none"> <li>SBA and IRS plan to meet on an ongoing basis and update processes as necessary</li> </ul>

<sup>18</sup>On May 11, 2009, SBA, as part of its unified agenda for regulations at the proposed rule stage, indicated that in implementing the Act it will issue regulations to make conforming changes to existing regulations and establish three new programs: The Private Disaster Loan program, the Immediate Disaster Assistance program, and the Expedited Disaster Assistance program for businesses. SBA also indicated that it would issue new regulations to provide guidance on expanded assistance during catastrophic disasters and address coordination with FEMA. 74 Fed. Reg. 22009, 22010 (May 11, 2009).

Description of requirement (Act section number)	SBA actions taken	SBA planned actions
(4) SBA must develop, implement, and maintain a written comprehensive disaster response plan. SBA must update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance. (12075)	<ul style="list-style-type: none"> <li>Issued DRP in June 2007</li> <li>Participated in leadership seminars and completed After Action Reports to suggest draft revisions to plan</li> </ul>	<ul style="list-style-type: none"> <li>SBA expects to issue an updated DRP by September 2009</li> </ul>
(5) Establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area. (12083)	<ul style="list-style-type: none"> <li>Requested funding in FY 2010 President's Budget to implement pilot programs to test private disaster loans</li> <li>Developed draft regulations*</li> </ul>	<ul style="list-style-type: none"> <li>Develop and implement pilot programs with private lenders</li> <li>Publish final regulations in <i>Federal Register</i></li> </ul>
(6) SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders. (12084)		
(7) SBA must establish an Expedited Disaster Assistance Business Loan Program. (12085)		
(8) SBA must submit to Congress reports on staffing, accounting, activities each month; disaster assistance each year; and contracting and loan approval rates. (12091)	<ul style="list-style-type: none"> <li>Submitted accounting, staffing, and activity reports to Congress</li> </ul>	<ul style="list-style-type: none"> <li>Submit annual report on disaster assistance, contracting and loan approval rate reports to Congress</li> </ul>

Sources: Act and SBA documents.

\*Items in bold are draft versions of documents that SBA officials discussed with us.

<sup>19</sup>SBA told us parts of their DRP and Leadership Guide for Managing a Response to a Disaster already meet all of the requirements of this section, but these documents do not address the requirement for regional marketing information.

According to agency officials, SBA did not fully address requirements for some provisions because the agency has to make extensive changes to current programs or create new programs to comply with the Act's requirements, and it takes time to implement these types of changes. More specifically, according to agency officials, SBA has not completely addressed some provisions because:

- **Sections 12062, 12083, 12084, 12085:** These 4 provisions require SBA to issue regulations or make amendments to its SOPs that either establish new disaster programs or make changes to an existing program, but the agency said it takes time to develop and issue regulations and, in some cases, it is developing pilot programs before making decisions about regulations. SBA officials told us they have requested funding to carry out requirements for two of these—the Immediate and Expedited Disaster Assistance Programs—in the fiscal year 2010 President's Budget.<sup>19</sup>

<sup>19</sup>According to agency officials, the pilot program will be designed to test requirements applicable to sections 12084 and 12085.

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According to SBA, the funds will be used to implement pilot programs with private commercial lenders. SBA officials told us that such a pilot would be necessary to see how private lenders would administer the programs.

- **Section 12066:** Requires coordination between SBA and IRS to ensure tax records are shared quickly, and the two agencies intend to meet on an ongoing basis and update processes, as necessary.
- **Section 12075:** Requires the agency to issue an updated comprehensive DRP, and while the agency has drafted its updated plan, the draft may undergo additional changes after the agency holds its next Senior Leadership Seminar in which it will conduct disaster simulation exercises—scheduled for June 29-30, 2009—and then agency officials must submit the updated plan to the new Administrator for review and approval.
- **Section 12091:** Establishes a new reporting requirement that SBA submit an annual report to Congress on disaster assistance each fiscal year, but SBA has not issued an annual report because the agency is awaiting input from the new Administrator. Furthermore, EODSPO staff are responsible for developing and submitting the annual report to Congress, but SBA officials told us the office was not fully staffed in November 2008 when the first annual report on disaster assistance was due to Congress. Specifically, the Act requires that SBA report annually on the total number of SBA disaster staff, major changes to the Disaster Loan Program (such as changes to technology or staff responsibilities), a description of the number and dollar amount of disaster loans made during the year, and SBA's plans for preparing and responding to possible future disasters.<sup>20</sup>

Additionally, we believe that SBA has partially addressed the provision in section 12063 mandating region-specific marketing and outreach. However, agency officials told us that their comprehensive DRP and Leadership Guide for Managing a Response to a Disaster include marketing and outreach components and satisfy the Act's requirement, and therefore, they do not believe a separate plan is necessary. While SBA

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<sup>20</sup>The Act also states the annual report must include information on some requirements under certain provisions, such as (a) the regulations on coordination with FEMA to assure that applications for disaster assistance are submitted as quickly as practicable, as required under section 12062; (b) disaster simulation exercises conducted by the agency under section 12072; (c) updates to the comprehensive DRP, required under section 12075; and (d) updates to SBA's plans for securing office space to accommodate an expanded workforce, required under section 12076.

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believes that this requirement has been met, the DRP and Leadership Guide do not provide region-specific marketing information or have steps in place to ensure that the information is available to SBDCs—as required by the Act. Specifically, the Act states the marketing and outreach plan must (1) encourage a proactive approach to disaster relief efforts; (2) make clear the services provided by SBA; (3) describe SBA's different disaster loan programs, how they are made available, and the eligibility requirements for each; (4) provide regional marketing information, focusing on disasters occurring in each region, and likely scenarios for disasters occurring in each region; and (5) ensure the marketing and outreach plan is available at SBDCs and on SBA's Web site. For example, lessons learned from the 2005 Gulf Coast hurricanes can provide a basis for developing marketing information for regions that may be prone to large scale disasters affecting large geographic areas. Based on our review, the DRP and Leadership Guide do not include regional marketing information, such as lessons learned from prior disasters, and it is unclear how SBA ensures availability of the information to SBDCs and the public through the agency's Web site. Also, as we will describe later, officials with whom we spoke during our site visits to Iowa and Texas noted the importance of regional marketing and outreach information and suggested this type of information would be helpful prior to a disaster. By not developing region-specific information in its updated plan and clear mechanisms to share the information with SBDCs, SBA is not in compliance with requirements of the Act, and has not fully leveraged the efforts of regional entities, such as SBDCs and emergency management groups, to ensure that it and they will be better prepared for future disasters.

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**SBA Has Had Limited Success in Meeting Deadlines of the Act, Including Issuing An Annual Report and Updating the DRP**

SBA has had limited success in meeting the deadlines in 9 provisions of the Act. The agency met some deadlines for 4 provisions, missed one deadline by 27 days, and missed deadlines for the 4 remaining provisions—in some cases, by many months. The statutory deadlines range from 30 days to 1 year after the Act's enactment. Table 5 shows the status of SBA's efforts to meet the deadlines, as of June 2009.

**Table 5: Status of SBA Efforts to Meet the Act's Deadlines, as of June 2009**

Requirements with deadlines (Act section number)	Date of statutory deadline	Status
(1) SBA must issue regulations about their coordination with FEMA to ensure that each application for disaster assistance is submitted as quickly as practicable (12062).	February 16, 2009	Deadline not met – SBA developed draft regulations, but has yet to publish final regulations.
(2) Create a marketing and outreach plan (12063).	August 20, 2008	Deadline not met – SBA believes this requirement has been met, but the agency's efforts do not include a region-specific component, as required by the Act.
(3) SBA must report to Congress on the finding and recommendations of a study looking at consistency between regulations and SOPs (12064).	November 18, 2008	Deadline not met – SBA submitted a report to Congress 27 days after deadline, on December 15, 2008. <sup>5</sup>
(4) SBA must submit a report to Congress detailing amendments to the major disaster response plan—specifically the report must include updates on 12 items (12072).	August 22, 2008	Deadline met – SBA submitted a report to Congress in August 2008, but this information has not been issued in an updated DRP. <sup>6</sup>
(5) SBA must report to Congress about the individual assigned disaster planning responsibilities and related information (12073).	June 21, 2008	Deadline met – SBA appointed an official to head the agency's newly created EODSPO in June 2008. <sup>7</sup>
(6) SBA must develop, implement, or maintain a comprehensive DRP (12075).	Various <sup>8</sup>	Some deadlines met – SBA issued its DRP in June 2007 in anticipation of the Act's requirement, but has not issued an annual updated plan.
(7) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing permanent criteria for qualified private lenders and;</li> <li>• report to Congress on progress of the regulations (12083).</li> </ul>	<ul style="list-style-type: none"> <li>• May 22, 2009</li> <li>• November 22, 2008</li> </ul>	Deadline not met – SBA has developed draft regulations, but has yet to publish final regulations, and has not submitted its report to Congress on the progress of the regulations.
(8) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing and implementing an Expedited Disaster Assistance Loan Program and;</li> <li>• report to Congress on progress of the program (12085).</li> </ul>	<ul style="list-style-type: none"> <li>• May 22, 2009</li> <li>• October 22, 2008</li> </ul>	Deadline not met – SBA submitted a progress report to Congress 16 days late, on November 7, 2008 <sup>9</sup> and has developed draft regulations, but has yet to publish final regulations.
(9) SBA must submit to Congress reports on staffing, accounting, activities each month; disaster assistance each year; and contracting and loan approval rates (12091).	Various <sup>10</sup>	Some deadlines met – SBA submitted monthly reports to Congress starting in December 2008, but has not issued an annual report on disaster assistance, nor contracting and loan approval reports.

Sources: Act and SBA documents.

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<sup>6</sup>A report to the Senate Committee on Small Business and Entrepreneurship and U.S. House of Representatives Committee on Small Businesses, *Study on Consistency Between U.S. Small Business Administration Regulations and Standard Operating Procedures*. (Washington, DC: December 15, 2008).

<sup>7</sup>U.S. Small Business Administration, *Disaster Response Plan Report Under Section 12072 of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246)*. (Washington, DC: August 2008).

<sup>8</sup>U.S. Small Business Administration, *Disaster Planning Report Under Section 12073 of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246)*. (Washington, DC: November 2008).

<sup>9</sup>SBA must update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance.

<sup>10</sup>U.S. Small Business Administration, *Report Required by Section 12085(e) of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246)*. (Washington, DC: November 2008).

<sup>11</sup>According to the Act, SBA must submit, among other reports to Congress, monthly reports on staffing, accounting, and activities on major disasters; an annual report; and reports on contracting and loan approval rates 6 months after enactment. The deadline for the contracting and loan approval reports was November 22, 2008, while the deadline for the annual report was 45 days after the fiscal year end or November 14, 2008.

As we discussed earlier, the Act requires that SBA address region-specific marketing and outreach requirements, but we believe that its current DRP and Leadership Guide for Managing a Response to a Disaster do not address all the requirements in the Act and, therefore, SBA missed this deadline. Additionally, the Act requires SBA to issue final regulations for two new programs—the Private and Expedited Disaster Assistance Programs—and regulations for SBA’s coordination of disaster assistance programs with FEMA. SBA officials told us the agency has developed draft regulations for these requirements, but missed the statutory deadlines to publish final regulations. According to SBA officials, they missed the deadlines because they needed time to issue new regulations, as well as create and pilot new disaster programs, and conduct an interagency review with FEMA before making final decisions about implementation.

The Act also establishes multiple reporting requirements, and while SBA has met some deadlines, others were missed. For example, SBA successfully submitted monthly accounting, staffing, and activity reports to Congress, starting in December 2008. However, the agency missed deadlines for submitting its first annual report on disaster assistance, due November 2008, as noted earlier, and contracting and loan approval rate reports. According to officials, SBA is waiting for input from the newly confirmed Administrator—who also must review and approve the reports prior to their issuance.

In addition, because SBA has not published an update to the DRP since the plan’s issuance in June 2007, we found that it contained obsolete

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information in some areas, and did not include information on many of the changes resulting from the Act or the agency's own disaster reform efforts since 2007, such as the establishment of EODSPO and appointment of a chief as director of all disaster planning responsibilities, update to DCMS to track and follow up with applicants, the increase in the system's capacity from 2,000 to more than 12,000 concurrent users, and incorporation of disaster simulations to enhance its disaster planning. As we noted earlier, agency officials may revise the plan following its leadership seminar in June 2009. Agency officials said the updated plan will likely be issued in August or September 2009 and will incorporate changes to the Disaster Loan Program resulting from the Act.

Finally, the agency did not provide milestone dates for completing implementation of the requirements that have not been completely addressed. Because these actions and reports have been delayed and SBA did not have a plan detailing expected completion dates on the requirements that still need to be addressed, Congress does not have reliable information on the extent to which SBA is reforming its Disaster Loan Program. Furthermore, failure to produce the annual report can lead to a lack of transparency on the agency's progress in reforming the program, and the delay in updates to the DRP limits SBA's ability to adequately prepare for and respond to disasters.

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**SBA's Response  
Following 2008  
Disasters Aligned  
with Certain  
Components of its  
DRP, but SBA's  
Response to Disaster  
Victims' Feedback on  
the Application  
Process Could be  
Improved**

SBA's initial response after the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, such as infrastructure, human capital, information technology, and communications and outreach. For example, many of the individuals we met in Iowa and Texas said that SBA staff provided outreach and public information about its Disaster Loan Program, distributed application information, assigned knowledgeable customer service representatives to various DRCs and BRCs, and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help. Individuals we interviewed and results from SBA's 2008 Disaster Loan Program Customer Satisfaction Survey provided some positive feedback about SBA's performance following recent disasters. However, interviewees and these same survey results indicated areas for improvement; in particular, these sources both indicated that the application paperwork was burdensome and that the application process needed improvement. SBA officials told us that they intend to improve the application process, but did not provide documentation of such plans and did not appear to take advantage of feedback from applicants, such as that received from the customer survey.

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**Major Disasters of 2008  
Provided a Limited Test of  
SBA's Ability to Plan for  
and Respond to Disasters  
in Accordance With Its  
DRP**

Three major disasters struck our nation in 2008 that provided a limited test of SBA's ability to plan for and respond to major disasters and tested the improvements stemming from recent disaster reform efforts—the Midwest floods and Hurricanes Ike and Gustav.<sup>21</sup> First, beginning in late May 2008, tornadoes, severe storms, and flooding affected six Midwestern states (Iowa, Illinois, Indiana, Missouri, Nebraska, and Wisconsin). Notices of Presidential declarations of major disasters were issued in each state. Flooding continued into July 2008 in some areas, with Cedar Rapids, Iowa, being hardest hit, in terms of suffering the most physical damage and business losses. The floods left 13 dead and damage region-wide was estimated in the tens of billions of dollars. In addition to FEMA, state and local emergency management agencies, the American Red Cross, and the National Guard assisted the victims of flooding with disaster relief and evacuation. Second, in early September 2008, a major disaster struck the Gulf Coast states when Hurricane Ike made its way through Texas and Louisiana. Hurricane Ike made landfall as a Category 2 hurricane near Galveston, Texas, on September 7, 2008, and was declared a major disaster by the President on September 13, 2008.<sup>22</sup> Ike was the third most destructive hurricane to make landfall in the United States and the third major hurricane of the 2008 Atlantic hurricane season; it caused widespread damage to some Gulf Coast areas already trying to recover from Hurricane Gustav, which hit Louisiana on September 1, 2008.<sup>23</sup> Hurricane Ike was blamed for at least 100 deaths and damages are estimated at approximately \$24 billion.

Based on our review, SBA's response following the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, and the

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<sup>21</sup>While SBA received a large number of applications as a result of Hurricane Gustav, the agency's total loan amount approved for the Midwest floods and Hurricane Ike were far greater than for Hurricane Gustav. Because of the greater dollar amounts approved as a result of the Midwest floods and Hurricane Ike, we decided to conduct site visits to areas affected by these two disasters.

<sup>22</sup>Hurricane Ike was a Category 2 hurricane, according to the Saffir-Simpson Hurricane Wind Scale—which is a 1 to 5 categorization, based on the hurricane's intensity with 5 indicating the most severe winds.

<sup>23</sup>According to FEMA, Hurricane Gustav affected areas of Florida, Alabama, Mississippi, Louisiana, and Texas. Affected counties and parishes are eligible for different types of federal assistance, but SBA approved disaster loans due to damage caused by Hurricane Gustav in Mississippi and Louisiana. For example, 52 Louisiana parishes were declared eligible for individual assistance and all 64 parishes were declared for some form of public assistance. As of June 2009, SBA approved more than 4,100 applications, totaling more than \$123 million in disaster loans to home and business owners affected by Hurricane Gustav.

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agency's efforts were in accordance with the plan. Though we noted earlier that the 2007 plan has not been updated and, therefore, has some obsolete information, for purposes of this study, we found that the plan addresses the major components—including infrastructure, human capital, information technology, and communications and outreach—and puts into writing a disaster assistance framework and related processes for how the agency plans to prepare for and respond to victims of potential disasters, and subsequently, offer assistance through its Disaster Loan Program. For example, according to SBA, following both disasters the agency used its organizational infrastructure and key staff in each of its core functions to provide disaster assistance. ODA also utilized available operational and technological support, and communications and outreach, to help ensure that the agency would be able to provide timely financial assistance to the disaster victims. While the 2008 disasters were not as severe as those in 2005, the agency's performance in the aftermath of the 2008 flooding dramatically improved over its performance in the aftermath of the 2005 Gulf Coast hurricanes. Specifically, following the 2005 Gulf Coast hurricanes, processing times for a home loan reached a maximum of about 90 days, but in 2008 the processing time was about 5 days. Similarly, SBA took 70 days to process a business loan in 2005, but in 2008 the average processing time was about 9 days. In addition, on June 24, 2008, SBA opened a BRC in Cedar Rapids, which was co-located with FEMA's DRC. The BRC enabled businesses owners and homeowners to work directly with SBA staff to learn about available recovery resources and programs, receive counseling, and receive face-to-face answers to their questions. At the peak of its efforts, SBA reported having 194 staff working from about 67 centers in Iowa to provide recovery assistance to flood victims in more than 81 counties. As of June 2009, SBA had approved more than \$411 million in disaster assistance to individuals and business owners whose homes or property were damaged by the Midwest floods.

In addition, in the aftermath of Hurricane Ike, SBA had about 116 disaster staff in Texas and 200 in Louisiana. In Texas, particularly, SBA customer service representatives provided assistance to Hurricane Ike victims through 13 DRCs, two Disaster Loan Outreach Centers, and two BRCs. The customer service representatives were available to meet individually with disaster victims to issue loan applications, answer questions about SBA's disaster loan program, explain the application process, and help individuals complete their applications. Additionally, as of June 2009, SBA had approved approximately \$677 million in SBA disaster loans to Texas and Louisiana homeowners, renters, businesses, and nonprofits who sustained damages from Hurricane Ike. Specifically, SBA provided about \$478 million in loans to more than 9,260 homeowners and renters, and

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about \$199 million in loans to nearly 1,640 businesses and nonprofit organizations.

Similar to its response following the Midwest floods, SBA took less time to process disaster loan applications during its post-Hurricane Ike response because of upgrades made to DCMS, an expanded disaster response workforce, and an online electronic loan application—eliminating the need to mail an application or visit a center. As a result, the time needed to process a home loan following Hurricane Ike averaged about 5 days and a business loan averaged about 12 days.

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**SBA's Response to Recent Major Disasters Considered Satisfactory, but Both Our Interviewees and SBA's Survey Results Identified Areas for Improvement**

Individuals affected by both disasters told us they considered the agency's overall performance satisfactory in responding to the disasters. However, the individuals believed some improvements could be made to SBA's disaster loan application process. Similarly, our review of SBA's 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents provided some positive feedback about SBA's performance, but they too believed that improvements were needed. During our site visits to areas in Iowa and Texas, we obtained insights on the devastation caused by the Midwest floods and Hurricane Ike from various state and local government officials and small business owners, as well as their perceptions of SBA's initial efforts. SBA District Office officials and SBDCs affected by the disasters, as well as representatives of nongovernmental organizations also gave their views on the disaster recovery efforts. According to SBA and SBDC officials, state and local government officials, nongovernmental representatives, and business owners we interviewed in Iowa and Texas, in the days immediately following the disasters, ODA staff reported to the affected areas, established several BRCs, assigned knowledgeable customer service representatives, and began providing the needed disaster assistance. The individuals said that SBA representatives distributed loan applications and assisted in the initial application process by answering questions, providing guidance about the Disaster Loan Program, its eligibility rules and requirements, offering one-on-one assistance with filling out the disaster loan application, and accepting completed applications.

Additionally, interviewees said SBA staff provided outreach and public information to affected individuals and businesses about the Disaster Loan Program. For example, to ensure that individuals and businesses knew about available assistance, SBA staff worked with the local media in providing television, radio and newspaper interviews, communicating information about loan availability, and disseminating information through

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various community briefings and town hall meetings. The interviewees said SBA staff also made several visits to state and local groups, such as the Chamber of Commerce to tell them about SBA's Disaster Loan Program. Many of the people we interviewed said that while most applicants used the paper application, the electronic loan application—introduced in August 2008 just prior to Hurricane Ike—worked well and they were not aware of any DCMS problems. Furthermore, many of them were satisfied overall with SBA's initial disaster assistance efforts, and the feedback we received on SBA's response to the disasters indicated to us that the agency's assistance was consistent with the processes and procedures outlined in the DRP.

As mentioned, respondents to SBA's 2008 Disaster Assistance Program Customer Satisfaction Survey also were somewhat satisfied with ODA's Disaster Loan Program.<sup>24</sup> Specifically, our review of the 2008 survey results showed that ODA's aggregated customer satisfaction index score was 55 on a scale of 100. Respondents, however, had mixed reaction to the program and the agency's performance in key areas such as application processing, SBA's Customer Service Center and the disaster recovery centers, inspection and decision processes, and loan closing.<sup>25</sup> Specifically, survey results showed applicants who were declined for an SBA disaster loan had lower satisfaction ratings compared to applicants that were approved for disaster loans. For example, the declined applicants' overall customer satisfaction index was 34 as compared to approved applicants' customer satisfaction index, which ranged from 63 to 81, with homeowners and renters generally more satisfied than business owners.<sup>26</sup> The survey results also showed that the inspection process and disaster

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<sup>24</sup>The response rate for the survey was about 20 percent. About 4,800 loan recipients and declined applicants were included in the survey population, which resulted in approximately 570 completed responses used for survey analysis. The survey results should be viewed with caution because of the low response rate.

<sup>25</sup>The American Customer Satisfaction Index (ACSI) is the national indicator of customer evaluations of the quality of goods and services available to U.S. residents. ACSI is a uniform cross-industry/government measure of customer satisfaction, including its causes and its effect. ACSI is provided through a partnership of the University of Michigan Business School, Claes Fornell International (CFI) Group, and the American Society for Quality.

<sup>26</sup>There is a range of scores because the survey includes four categories of approved applicants: homeowners (81), renters (80), business owners (63), and recipients of economic injury disaster loans (66). The scores address the respondents' overall satisfaction, satisfaction compared to expectations, and satisfaction compared to an "ideal" organization, based on averages with 0 meaning "poor" and 100 meaning "excellent".

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recovery center areas were rated positively by all respondents. The respondents noted that the DRCs were easy to locate, had convenient hours of operation and accessible SBA staff, and rated SBA staff as being professional, knowledgeable and helpful. Additionally, respondents rated the SBA inspection process as an area where SBA staff excelled.

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**Interviewees and Survey Results Point to the Need for Improvements in the Application Process, but SBA Does Not Have A Clear Process with Which to Respond to Ongoing Concerns**

While SBA's response to the disasters was considered satisfactory overall, both the individuals we interviewed and survey results point to areas for improvement and suggested ways to increase satisfaction with SBA's disaster assistance process. For example, some business owner applicants we interviewed expressed concern over collateral requirements and interest rates. They also complained about disparity between verbal versus final written loan terms and amounts, having multiple loan officers or case managers, and SBA not using district and branch office staff for follow up after centers were closed in their areas. Additionally, some business owner applicants said that the disaster loan application was too complex or lacked adequate instructions—a problem which interviewees believed sometimes caused some applicants to withdraw their application or decide not to apply for SBA disaster loans.

Both the interviewees and the survey results indicated the amount of paperwork required for the application process was burdensome, and interviewees also expressed concerns about the timeliness of loan disbursements. Specifically, some interviewees said that improvements were necessary to speed up loan disbursements because some business owners had to wait as long as 7 months after submitting the disaster loan application to receive an initial loan disbursement, by which time a small business could be so economically weakened that its future operations would be in question. In terms of the survey, business loan and economic injury disaster loan recipients were dissatisfied particularly with the timeliness of fund disbursements after loan approval, and rated the application process for business loans as among the areas most needing improvement. In addition, the application and decision process were consistently among the lower-rated performing areas.

In addressing some of the areas in need of improvement, many business owner applicants we interviewed suggested changes to SBA's disaster loan application process, such as providing partial disbursements earlier in the process and using bridge loans to help ensure disaster victims receive timely assistance. We also consistently heard from SBDCs and state and local emergency management agencies, the need for joint pre-planning and disaster preparedness efforts with SBA, and more up-front information

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about SBA's disaster response plan and their expected roles and responsibilities as part of that response effort. In addition, during our interviews, some business owner applicants complained that they had to provide copies of 3 years of federal income tax returns, although they had signed an IRS form 8821—Tax Information Authorization—which allows SBA to get tax return information directly from IRS.<sup>27</sup> Interviewees found this process burdensome and somewhat inefficient and, as a result, suggested that SBA change its application requirements to remove the requirement that applicants must provide copies of tax returns. SBA officials explained the current process for obtaining tax information from IRS and stated that SBA does not require copies of tax returns from all business applicants. Rather, they said that SBA requests copies on a case-by-case basis when it is unable to determine repayment ability based on the tax transcript obtained by using IRS form 8821. However, our review of SBA's filing requirements for business loans showed that SBA's written procedures differed from those the officials explained. Specifically, SBA's written requirements for business loans state that while SBA requires business applicants to sign form 8821, applicants also must submit copies of their tax returns. In addition to the potential paperwork burden for applicants, the conflicting written procedures and SBA's current process could cause confusion and inefficient processing during disaster responses.

Similarly, one suggestion from the ACSI report of survey results was that SBA improve or maintain its process in high-performing areas of the loan application process and work to improve its performance in the low-performing areas to demonstrate commitment to further improving the process for future disaster loan applicants. For instance, areas with the lowest impact on an applicant's overall satisfaction, such as the inspection process and DRCs, were rated higher than other areas by all respondent groups and those areas rated as having the highest impact on satisfaction for most respondents—the application and decision areas—scored lowest in satisfaction.

Consequently, in reporting the results and suggestions for agency action, SBA was encouraged to: (1) maintain its efforts in areas that were high performing and had low impact on overall customer satisfaction, and (2)

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<sup>27</sup>SBA officials told us the agency requests copies of tax records to help loan officers prepare cash flow analyses and to calculate repayment ability.

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increase its efforts to improve areas that were low performing and had a higher impact on satisfaction.

During our review and analysis of the 2008 customer satisfaction survey, we found that the survey's results were not a formal part of the agency's process for reforming its disaster loan program, or its efforts to continually improve the application process. SBA officials were unable to cite specific actions taken to incorporate the survey's results into efforts to improve its disaster program, and it appears that its primary use for the annual survey is linking it to the agency's budget and performance accountability reports to provide an outcome measure for the Disaster Loan Program. Additionally, apart from SBA's 2008 launch of its online disaster loan application, we found that the agency's other disaster reform efforts, to date, have not focused on the complexity of the disaster loan application (particularly for business applicants), the extensive amount of paperwork and documents required, or the timeliness of disbursements. While SBA officials said they continually look for ways to improve the disaster loan application, the agency does not appear to have a formal process for addressing problem areas within its program and making needed improvements. Consequently, it may be missing opportunities to demonstrate its commitment to further improve the application process for future applicants.

Finally, some of the improvements suggested by the individuals we interviewed are related to some requirements in the Act. For example, as we noted earlier, the Act requires that SBA provide specific regional marketing and outreach information and scenarios in its DRP, and include SBDCs in preparing for future disasters. Additionally, the Act requires that SBA coordinate with IRS, as necessary, in sharing tax records of disaster loan applicants to ensure expedited processing of all disaster loans. As mentioned earlier in this report, as of June, SBA has yet to address these two requirements.

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## Conclusions

SBA's response to the 2005 Gulf Coast hurricanes exposed many deficiencies in the agency's Disaster Loan Program and demonstrated the need for reform. Since then, SBA has taken steps to improve its program. For instance, SBA issued a DRP, adopted an electronic loan application, upgraded the system capacity of its DCMS, improved employee training and expanded its disaster reserve staff. With passage of the Act, Congress also acted to transform and improve SBA's Disaster Loan Program and ensure the agency is better prepared to handle future large-scale disasters. SBA adapted its initial DRP in June 2007, which laid out a framework and

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processes the agency has in place that would enable it to respond effectively to disasters, and the Act requires that SBA have such a plan and regularly update it. However, SBA has not addressed specifically how it would market its Disaster Loan Program in different areas of the country, nor adapted likely scenarios for certain regions prone to disasters. Although SBA believes that it has addressed the requirement for marketing and outreach in its DRP, the 2007 plan does not provide any regional perspective, nor has the agency updated this plan since 2007. We consistently heard from regional entities, such as SBDCs and emergency management groups, about the need for more upfront information on SBA's Disaster Loan Program and their expected roles and responsibilities in disaster response efforts. By taking such actions, SBA could leverage the efforts and capacity of SBDCs, as well as state and local emergency management agencies, and ensure that it and they will be better prepared for future events, especially in disaster-prone areas.

SBA has taken a number of steps to address the many requirements of the Act; however, some provisions have presented challenges for SBA in implementing specific requirements and meeting some associated deadlines. For example, SBA has not completely met certain requirements and the agency does not have an implementation plan in place to ensure the remaining requirements are addressed. Some of the changes required by the Act, especially those requiring SBA to create new programs, will take time to implement. It will be important for the agency to do so in a comprehensive manner; but because the implementation process already is behind schedule, it also will be important for SBA to ensure it has a plan for implementing the remaining requirements and report on its progress to Congress. Failure to produce annual reports on schedule can lead to a lack of transparency on the agency's progress in reforming the program. Delays in updates to the DRP also limit its ability to adequately prepare for and respond to disasters. By continuing its efforts to address and implement all requirements in the Act and expeditiously communicate its actions, SBA could improve its operations for the 2009 hurricane season, build on the lessons learned in the aftermath of the 2005 Gulf Coast hurricanes, and further signal its commitment to its mission of providing affordable and timely financial assistance to help businesses and homeowners recover from disasters.

SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, and the affected individuals we interviewed, as well as respondents to SBA's 2008 Disaster Loan Program Customer Satisfaction Survey were somewhat satisfied with the agency's performance after the major disasters of 2008. However, the

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individuals we interviewed and survey results both indicated areas for improvement with SBA's disaster loan program. For instance, our interviewees and the survey results indicated the amount of paperwork in the application process was burdensome and cited the application process, including tax information requirements, as an area for improvement. As discussed in this report, while SBA has made progress, the agency has missed opportunities to further improve its Disaster Loan Program, and, in particular, improve the application process for future applicants. For example, it was unclear to what extent it had a formal process in place for addressing identified problem areas and making needed improvements to its program. By establishing such a process to address identified problem areas, SBA could better demonstrate its commitment to improve the Disaster Loan Program.

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### Recommendations for Executive Action

To facilitate SBA's progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program, we recommend that the Administrator of SBA take the following five actions:

- develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act. Specifically, building on the lessons learned from previous disasters, SBA should include likely scenarios for certain regions prone to disasters and regional marketing information for SBDCs, other local resources, and local emergency management groups. In addition, SBA should make this information and other Disaster Loan Program information readily available to these regional entities prior to the likely occurrence of a disaster;
- complete the first annual report to Congress on disaster assistance, and adhere to the required time frames for subsequent annual reports;
- expeditiously issue an updated DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own disaster reform efforts;
- develop an implementation plan and report to Congress on the agency's progress in addressing all requirements within the Act—including creating and implementing new programs, such as the Immediate and Expedited Disaster Assistance Programs—and include milestone dates for completing implementation and any major program, resource, or other challenges the agency faces as it continues efforts to address requirements and meet deadlines in the Act; and
- develop and implement a process to address identified problems in the disaster loan application process for future applicants.

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## Agency Comments and Our Evaluation

We provided SBA a draft of this report for review and comment. In comments provided to us in an email, SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA said that the agency has plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, the officials cited the electronic loan application as an example of its efforts to improve the application process and said the agency has plans to continue its improvement efforts and make such improvements an ongoing priority. The comments also referred to ongoing efforts since 2005 to improve various processes, including 79 projects to improve the processing and disbursement process, but did not specify how these efforts improved the application process for disaster victims. In addition, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

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We are sending copies of this report to interested Members of Congress and the Administrator of the Small Business Administration. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-3678 or [shearw@gao.gov](mailto:shearw@gao.gov) if you or your staff have any questions about this report. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,



William B. Shear  
Director, Financial Markets and  
Community Investment

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## Appendix I: Objectives, Scope, and Methodology

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Our objectives were to review (1) the extent to which the Small Business Administration (SBA) addressed the requirements of the Small Business Disaster Response and Loan Improvements Act of 2008 (Act), and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 Disaster Recovery Plan (DRP).

To respond to these objectives overall, we reviewed agency documents related to SBA's implementation of the Act's requirements, identified key components of the DRP, interviewed key officials at SBA headquarters about their roles and responsibilities in implementing the Act and SBA's response to major disasters in 2008, and identified the requirements specified in the Act—including any statutory deadlines for implementing specific provisions of the Act. SBA officials we met with included senior officials representing the Executive Office of Disaster Strategic Planning and Operations (EODSPO) and the Office of Disaster Assistance (ODA). We also met with officials from SBA's Office of the Inspector General to discuss planned audits and oversight activities related to SBA's Disaster Loan Program and the agency's implementation of the Act.

To determine the extent to which SBA addressed the requirements and deadlines of the Act, we

- reviewed the Act and identified 26 provisions with substantive statutory requirements and 9 provisions with related deadlines;
- reviewed the Act to determine which provisions require general or explicit appropriations;
- obtained, reviewed and analyzed documentation, such as policy memorandums, reports issued to Congress, or progress reports to determine if requirements had been addressed and deadlines had been met;
- interviewed agency officials to obtain information on what, if any, challenges exist that may affect SBA's ability to address certain requirements—including identifying reasons for any delays in meeting the statutory deadlines; and
- met with SBA to obtain information about the agency's next steps and resources the agency identified it needs to completely address the remaining provisions. During these meetings, we requested expected time frames for completion, milestone dates, resources needed, and reasons for delay, if applicable, for the partially addressed provisions.

To assess whether SBA's initial response following the 2008 disasters aligned with key components of its 2007 DRP, we conducted site visits to areas impacted by the 2008 Midwest floods (Iowa) and Hurricane Ike

(Texas). We reviewed SBA's DRP and other plans issued by the agency (i.e., SBA's ODA Field Operations, Processing and Disbursement Center, and Customer Service Center Disaster Response Plans) to identify some of the key components of the plans such as determining the agency's strategy for establishing field operations, disseminating information, coordinating with Small Business Development Centers (SBDC) and other regional entities, and effectively processing applications, as well as the agency's DRP that discusses its approach for being prepared for and responding to a disaster declaration, strategy for internal and external communication, and a description of ODA's responsibilities. In both Iowa and Texas, we interviewed various stakeholders including SBA and SBDC officials, state and local government officials, representatives of local Chambers of Commerce and economic development organizations, and small business owners to discuss what worked well, in terms of SBA carrying out key components of their DRP, and what, if any, improvements were suggested for SBA's Disaster Loan Program and processes. While our limited number of site visits was too small for generalizing the information obtained to assess ODA's overall ability to respond to any disaster, the observations and perspectives expressed by the various stakeholders was sufficient to suggest that SBA has begun institutionalizing key reforms in its disaster program's policy and practices. Furthermore, we obtained information about loan applicants' and recipients' satisfaction with the agency's Disaster Loan Program and related services immediately following the Midwest floods and Hurricane Ike.

We also reviewed the 2008 Disaster Assistance Program Customer Satisfaction Survey that addressed five customer segments which measure customer satisfaction with SBA's Disaster Loan Program.<sup>1</sup> It included four types of loan recipients—homeowners, renters, and business owners who received physical damage and economic injury disaster loans, as well as declined applicants. The survey questionnaire, which was developed through a collaborative effort between the Claes Fornell International (CFI) Group and SBA, measured overall satisfaction with SBA's program in areas such as application processes, customer service center, recovery center, and inspection processes. About 4,800 loan recipients and declined applicants were included in the survey population resulting in about 570

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<sup>1</sup>The survey used the American Customer Satisfaction Index (ACSI) which is the indicator of customer evaluations of the quality of goods and services available to U.S. residents. Since 1999, the ACSI has measured satisfaction, its causes, and its effects for more than 100 programs of federal government agencies. The ACSI is produced by the University of Michigan Business School, CFI Group, and the American Society for Quality.

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completed responses used for analysis—a response rate of about 20 percent. Further, the number of completed interviews was based on a quota for calling among the five customer segments, with weights applied to responses for the number of completed surveys and the number of loan recipients and declined applicants studied. Our overall data reliability assessment of the Customer Satisfaction survey was generally based on discussions with SBA officials and our knowledge of the Disaster Loan Program, publicly available information on ACSI, and our prior reports which included analyses of past years' survey results. As a result, we determined that survey data were sufficiently reliable for purposes of this report.

We conducted this performance audit from October 2008 through July 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Appendix II: Summary of the 2008 Small Business Disaster Response and Loan Improvements Act Requirements

**Figure 1: SBA's Status in Addressing Requirements and Deadlines of the Small Business Disaster Response and Loan Improvements Act of 2008**

Section	Description of requirement	Status	Deadline
12061	SBA permitted to make economic injury disaster loans to nonprofits.	●	
12062*	SBA must ensure its disaster assistance programs are coordinated to the maximum extent practicable with FEMA programs.	◐	○
12063	Better public awareness of disaster declaration, application periods, and creation of a marketing and outreach plan.	◐	○
12064	SBA must conduct a study looking at the consistency between standard operating procedures and regulations of the Disaster Loan Program.	●	○
12065	SBA increased loan amounts from \$10,000 to \$14,000 without requiring collateral.	●	
12066	SBA authorizes private contractors to process disaster loans and coordinate efforts with IRS to expedite loan processing.	◐	
12067	SBA must develop, implement, or maintain a centralized information system to track and follow up with disaster loan applicants.	●	
12068	SBA is authorized to increase the deferment period of loans, but the deferment may not exceed 4 years.	N/A	
12069	SBA must put in a place a secondary facility for processing disaster loans in case the primary facility is unavailable.	●	
12070	SBA can not require the borrower to pay any non-amortized amount for the first 5 years after repayment begins.	●	
12071	SBA is authorized to make economic injury disaster loans in cases of ice storms and blizzards.	●	
12072	SBA must develop and implement a major disaster response plan and conduct a disaster simulation exercise at least once every 2 years.	●	●
12073	SBA must assign an individual the disaster planning responsibilities and report to Congress.	●	●
12074	SBA should ensure that the number of full-time equivalent ODA employees is not fewer than 800 and in the disaster cadre not fewer than 1,000.	●	
12075	SBA must develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually.	◐	◐*
12076	SBA must develop long-term plans to secure sufficient office space to accommodate an increased workforce in times of disaster.	●	
12077	SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit.	●	
12078	Maximum disaster loan amount increased from \$1.5 to \$2 million.	●	
12079	SBA may guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.	N/A	
12081	If the President declares a major disaster, SBA may declare eligibility for additional disaster assistance.	N/A	
12082	SBA permitted to make economic injury disaster loans to eligible small business concerns located anywhere in the US (including outside the disaster area) when the SBA declares eligibility for additional disaster assistance.	N/A	
12083*	SBA must establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area.	◐	○
12084	SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders.	◐	
12085*	SBA must establish an Expedited Disaster Assistance Business Loan Program.	◐	○
12086	SBA is allowed to institute a program to refinance Gulf Coast disaster loans resulting from Hurricanes Katrina, Rita, or Wilma up to an amount no greater than the original loan.	N/A	
12091	SBA must submit reports to Congress on disaster assistance.	◐	◐

● Addressed (initial or ongoing) or deadline met  
 ◐ Partially addressed or some deadlines met  
 ○ Not addressed or missed deadline  
 N/A Not applicable because no action is needed to be taken by SBA at this time, due to provisions' discretionary nature.  
 Source: GAO analysis of the Act and SBA documents.  
 Note: The Act explicitly establishes appropriation requirements for procurements related to a major disaster for the provision in bold.  
 \*The Act requires SBA to issue regulations for these provisions.  
 \*SBA has not yet issued an updated DRP.

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## Appendix III: GAO Contact and Staff Acknowledgments

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### GAO Contact

William B. Shear, Director, (202) 512-8678, or [shearw@gao.gov](mailto:shearw@gao.gov).

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### Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman, Assistant Director; Michelle Bowsky; William Chatlos; Beth Ann Faraguna; Alexandra Martin-Arseneau; Marc Molino; Linda Rego; and Barbara Roesmann made significant contributions to this report.

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**House Committee on Small Business Hearing**  
**"Oversight of the Small Business Administration and its Programs"** (from July 29, 2009)  
 Small Business Administration Response to Questions for the Record: August 2009

**What is the estimated timeline for implementing an updated Disaster Recovery Plan that integrates regional marketing information?**

- SBA plans to submit an updated Disaster Recovery Plan as part of the 2009 Annual Report to Congress on Disaster Assistance, which will be released in November 2009. The current plan is detailed, thorough, and fully adequate to guide SBA operations during the 2009 Hurricane season. As part of the submission in November, SBA will incorporate and submit information on regional marketing efforts.
- SBA has a very aggressive marketing and outreach plan to reach all potential applicants in an area once a disaster strikes.
  - Information on our loan programs is listed in detail in our Disaster Tool Kit and SBA website and is universal for all regions.
  - We have instituted annual disaster training of regional and district communication personnel.
    - In FY 2008, the Office of Disaster Assistance (ODA), in coordination with the Office of Public Communications and Office of Field Operations, conducted a two-day training session for the Regional Communication Directors (RCDs) and District Office Public Information Officers (PIOs) nationwide. Training included information about the Disaster Loan Program and was designed to educate and prepare RCDs/PIOs about what to do in the event of a disaster.
    - In FY 2009, ODA is again providing training for the RCDs/PIOs. This year the training will be even more comprehensive and include sessions geared toward crisis communications, dealing with the media, and understanding disaster assistance provided by other Federal Agencies. Training will include sessions on best practices for a preparedness communications strategy so that local districts are taking effective steps targeting business owners and residents no matter what region of the country they live in.
    - SBA will continue to expand our outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before disaster strikes.
  - SBA ODA attended last year's SBDC annual conference and plans to attend this year's SBDC annual conference to discuss SBA's disaster program.
- ODA and OCPL are undertaking a comprehensive review of ODA's messaging and branding to reassess effectiveness, with the end goal being a clear and effective message on preparedness before a disaster and following one.

**House Committee on Small Business Hearing*****"Oversight of the Small Business Administration and its Programs"*** (from July 29, 2009)

Small Business Administration Response to Questions for the Record: August 2009

**What is the estimated timeline for implementing the loan programs mandated under the Farm Bill?**

- President's FY 2010 budget request includes \$1.7 million request to fund two Guaranteed Disaster Loan Pilot Programs (the \$25,000 Immediate Disaster loan program and the \$150,000 Business Expedited Disaster loan program).
- The Pilot will be implemented using 2010 budget funds to test the program with lenders.
- The plan is to use pilots to determine if the program design functions well for SBA, private lenders, and disaster victims. SBA is engaged in focus groups with the lending industry to determine an effective program design.
  - While the major program elements are set in statute, SBA is vetting the program details and structure with private sector lenders to ensure that the program can effectively aid disaster victims following a major disaster declaration.
- Once we have completed this process, we plan to pilot the two programs and take lessons learned from the pilot and then promulgate final regulations.

**What is the estimated timeline for implementing the FY 2008 Annual Report to Congress on Disaster Assistance? Will it include all components mandated by law?**

- The FY 2008 Annual Report, with data that is updated as of July 2009, is attached as Appendix 1.
- The report includes the components mandated by law, and includes four sections:
  - SBA personnel involved in disaster assistance operations,
  - Material changes to operations; including changes to technologies and personal responsibilities,
  - Effectiveness of the Disaster Loan Program based on Key Performance Indicators, and
  - Plans for responding to disasters during the next fiscal year
- SBA intends to provide Congress its FY 2009 Annual Report in November 2009.

**What have the prior results of SBA's Disaster Simulation been?**

- The SBA held a Senior Leadership Summit (SLS) in April 2008 with the goal of demonstrating the SBA's capability and effectiveness at performing the Disaster Loan Program during a catastrophic event.
- The Executive Summary for the Draft FY 2008 SBA Senior Leadership Seminar After-Action Report is attached as Appendix 2. These are the results of the FY 2008 disaster simulation efforts, but the document has not been reviewed by Agency Management nor has it been issued publicly.
- A separate file included in this package contains the entire FY 2008 Senior Leadership Seminar After-Action Report.
- The SBA will conduct a Disaster Simulation in FY 2010 and intends to issue a final report

**House Committee on Small Business Hearing*****"Oversight of the Small Business Administration and its Programs"*** (from July 29, 2009)

Small Business Administration Response to Questions for the Record: August 2009

**What is the status of SBA's implementation of Recovery Act Sections 503 and 509? Does SBA have a timeline on when those programs will be up and running?**

- Two Recovery Act provisions were designed to address disruptions in the secondary markets for the guaranteed portion of 7(a) loans and 504 private first mortgages.
- Both programs are entirely new and complex, requiring regulations, procedures, credit subsidy models, systems to implement, and procurement processes with outside contractors.
- SBA is working diligently to develop and operationalize these programs. During this time, SBA has also worked with Treasury and the Federal Reserve to implement additional programs to restore healthy activity in its secondary markets.
- Since March, in the 7(a) secondary market, which had been severely contracted since the fall of 2008, market activity and pricing has rebounded (see response to next question for additional detail).
- **Section 503**
  - Established a new secondary market guarantee authority to provide SBA guarantees on pools of 504 first mortgage private loans – which have not historically been guaranteed or securitized by SBA.
  - The Agency has drafted regulations, credit subsidy models, procedural guidance and legal forms and agreements for this program.
  - The interim final rule and associated documents have been submitted to the Office of Management and Budget (OMB) for approval. SBA has also started planning to develop contracts and systems to implement this program.
  - We expect to have this regulation published by September 1, depending on the comments received during the regulatory clearance process.
  - Operation of the program will follow and is dependent on finalization of contracts, system implementation timeframes, and interest of market participants
- **Section 509**
  - Established a new direct loan program to help broker dealers in the 7(a) secondary market finance their inventories of guaranteed loans.
  - The Agency has drafted regulations, credit subsidy models, procedural guidance and legal forms and agreements for this program.
  - These documents are in the final stages of Agency review, and will be sent to OMB for inter-agency and Administration review shortly. SBA has also started planning to develop contracts and systems to implement this program.
  - We expect to have this regulation published by September 30, depending on the comments received during the regulatory clearance process.
  - Operation of the program will follow and is dependent on finalization of contracts, system implementation timeframes, and interest of market participants

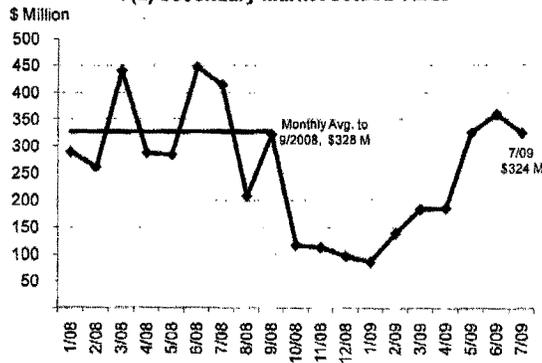
**House Committee on Small Business Hearing**  
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**What is the current status of SBA's secondary markets?**

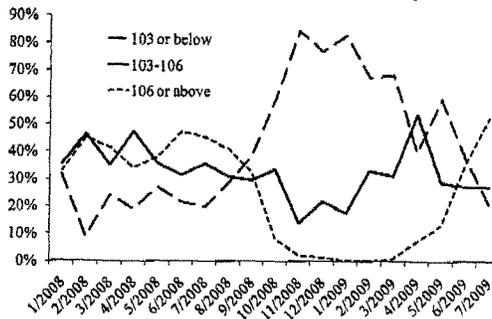
SBA's secondary market has recovered in recent months.

- **Improved secondary market volume:** Over the past three months, the average monthly loan volume settled from lenders to broker-dealers in the 7(a) secondary market has been \$335 million, and is slightly above the pre-recession average monthly volume of \$328 million. In July 2009, \$324 million settled in this market
- **Recovering premiums:** In July, 67% of the loans settled, representing over 50% of the total dollars, were sold at or above premiums of 106 – the highest share since October 2007. By comparison, in January and February, zero loans sold at premiums of above 106.

**7(a) Secondary Market Settled Value**



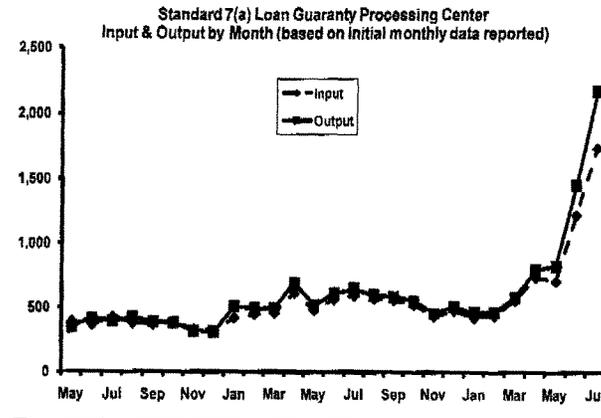
**7(a) Secondary Market Premium Ranges**



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**What are SBA's turnaround times for processing loan applications?**

- SBA is focused on ensuring that lenders and borrowers have a positive experience, and has undertaken process improvements to reduce the turnaround time on loan applications submitted to SBA
- There are three turnaround times on loan applications that are of particular importance:
  - *Non-delegated 7(a) loans*: Average turnaround time is 7 business days (as of August 2009), which is nearly 50% faster than in recent months
  - *Delegated 7(a) loans*: Average turnaround time is 1 business day after lender approval.
  - *504 loans*: Average turnaround time is 3 business days
- To achieve these turnaround times, SBA has aggressively doubled the staffing levels in the centers, lengthened production hours through overtime, and scaled up weekly training to boost employee productivity. This is in response to a four-fold increase in non-delegated loan applications since the start of the year (see exhibit below).
- SBA continues to pursue efforts to ensure the fastest decision response time for borrowers/lenders, including through close monitoring of employee performance in our processing centers and working with lenders to ensure their understanding of application requirements
- Meanwhile, borrowers should be aware that before and after their loan application is submitted to SBA for approval, they should anticipate the lender's loan application, assembly, and closing periods before a disbursement is made. These process times vary by lender and by type of loan.



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**What is your intention to implement the "Military Reservist and Veteran Small Business Reauthorization and Opportunity Act of 2008"? When will Sections 105, 106, and 208 of this act be implemented and running?**

- Section 105: Increasing the Number of Veterans Outreach Centers
  - **Purpose:** Increases the number of outreach centers by at least 2 each in FY 2008 and 2009 and by the number that the Administrator considers appropriate based on existing needs, for each fiscal year thereafter (in years where OVBD funding is increased above FY 2007).
  - **Actions taken to date:**
    - In FY 2008, SBA provided funding to five Veteran Business Outreach Centers located in New York, Florida, Texas, California, and Pennsylvania. In response to the 2009 Omnibus Appropriations Act, SBA announced an awards competition for one-year agreements and limited the competition to the three centers in St. Louis, Boston, and Flint that were taken over from the Veterans Corporation. On April 20, 2009 SBA entered into agreements with the three centers, with the understanding that these centers will be allowed to compete for FY 2010 five-year agreements.
    - The enacted FY 2009 budget for the Office of Veterans Affairs includes \$1.2 million in non-credit funding. The FY 2010 Congressional Budget Justification includes a \$1.5 million initiative, in addition to the \$1.2 million in base funding.
- Section 106: Study Regarding Gaps in Availability of Outreach Centers
  - **Purpose:** Independent Study on Gaps in Availability of Outreach Centers. SBA shall sponsor an independent study on gaps in the availability of Veterans Business Outreach Centers across the US, to inform decisions on funding and on the allocation and coordination of resources.
  - **Actions needed to implement:**
    - SBA is in the process of developing an RFP to conduct an independent study on gaps in outreach centers
    - The RFP is expected to be completed in approximately 2 months, after which the RFP can be put out to bid (6 months), and the study can be conducted (6 – 12 months).
    - With the RFP ready and the study's funding obligated, SBA will announce the RFP and proceed with the procurement process.
- Section 208: Veteran's Loan Program
  - **Purpose:** Establish and carry out a pilot program under which the Administrator shall reduce fees for veteran participation loans. The fee on a veteran participation loan shall be equal to 50 percent of the fee. To date, program funds have not been requested to implement this pilot program.
  - **Actions taken to date:**
    - SBA's Office of Capital Access (OCA) initiated steps for this program in the event that this program is funded.
    - SBA has developed a subsidy model to estimate the program level for this pilot
    - The funding provided in the Recovery Act allowed SBA to eliminate borrower fees on all 7(a) loans, including loans provided under Patriot Express. As of July 31, 9%

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Small Business Administration Response to Questions for the Record: August 2009

of SBA 7(a) and 504 loans approved since February 17, 2009 have gone to veterans. The FY10 President's Budget requests \$80 million to allow SBA to support the full authorized program level for the 7(a) program, \$17.5 billion, but does not include funding for the separate Veterans Loan risk category.

- As part of the regular budget formulation process for FY11, SBA plans to review and assess priorities for the 7(a) program components, including this authorized pilot program.

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**What is your intention to implement the "Energy Independence and Security Act"? When will sections such as the Energy Efficiency Technology Loan program and the Renewable Fuel Capital Investment Company program be implemented?**

- Energy Efficiency Technology Loan Program
  - **Purpose:** Establish and carry out a pilot program for two years, under which the Administrator shall reduce the upfront fee for energy efficiency loans. The fee on an energy efficiency loan would be equal to 50 percent of the fee on regular loans.
  - **Actions taken to date:**
    - SBA's Office of Capital Access (OCA) initiated steps for this program in the event that this program is funded.
    - SBA has developed a subsidy model to estimate the program level for this pilot.
    - The funding provided in the Recovery Act allowed SBA to eliminate borrower fees on all 7(a) loans, including loans for small businesses to improve their energy efficiency. The FY10 President's Budget requests \$80 million to allow SBA to support the full authorized program level for the 7(a) program, \$17.5 billion, but does not include funding for the separate risk category.
    - As part of the regular budget formulation process for FY11, SBA plans to review and assess priorities for the 7(a) program components, including this authorized pilot program.
- Renewable Fuel Capital Investment Company
  - **Purpose:** Create a new Renewable Fuel Capital Investment pilot program to issue SBA guaranteed debentures to invest in small businesses engaged in renewable energy projects. There is a grant component to this new program.
  - **Actions taken to date:**
    - SBA's Office of Capital Access (OCA), Investment Division, is in the process of drafting regulations required for this program. These regulations, once drafted, will go through the regular rule making process for public comment and review.
    - Additionally, the office has worked to model the program to determine program fees. Draft models have indicated that high fees would be required in order to attain a zero subsidy rate.
  - **Actions needed to implement:**
    - The Agency will continue discussions with Department of Energy and other agencies and market participants for program input. The Agency will finalize regulations for OMB and public review.

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**Appendix 1: FY 2008 Annual Report on Disaster Assistance**

**U. S. Small Business Administration**

Annual Report on Disaster Assistance. Section 12091 of Title XII, Subtitle B of the Food, Conservation and Energy Act of 2008 (P.L. 110-246), the Small Business Disaster Response and Loan Improvement Act of 2008, amended the Small Business Act to add Sec 43 requiring an annual report on disaster assistance.

Section 12091 / Sec 43 require SBA to:

- "(1) specify the number of Administration personnel involved in [disaster assistance] operations;
- (2) describe any material changes to those operations, such as changes to technologies used or to personnel responsibilities;
- (3) and assess the effectiveness of the Administration in responding to disasters during that fiscal year, including a description of the number and amounts of loans made for damage and for economic injury; and
- (4) Describe the plans of the Administration for preparing to respond to disasters during the next fiscal year."

**The following report covers SBA disaster operations in FY2008 and FY 2009 thru July 2009.**

**(1) SBA personnel involved in disaster assistance operations**

The number of SBA personnel involved in operations for FY08 and FY09, by month:

FY08 by Month	Number of Staff	FY09 by Month	Number of Staff
October	1,759	October	2,626
November	1,680	November	2,374
December	1,271	December	1,990
January	1,146	January	1,705
February	1,108	February	1,345
March	1,164	March	1,250
April	995	April	1,315
May	986	May	1,331
June	1,359	June	1,211
July	1,343	July	1,096
August	1,272		
September	2,149		

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Additionally, key declarations and ODA field staff numbers:

Declaration	ODA Field Staff Onsite
Hurricanes Gustav and Ike (09/08)	645
Midwest Floods (5/08)	417
California Wildfires (10/07)	200
Severe Storms and Flooding in WA and OR (12/07)	132

**(2) Material Changes to Operations; including changes to technologies and personal responsibilities:**

**Electronic Loan Application (ELA)** — The Office of Disaster Assistance has implemented a website to expand its outreach. Victims of disasters now may apply for disaster loan assistance at their convenience over any computer connected to the Internet. The ELA website is accessible to the public from the SBA's main website of <http://www.sba.gov>. It simplifies the application process and speeds delivery of assistance to disaster victims across all eligible home or business loan applications. The ELA was available for public use starting on August 4, 2008.

**Achievement Commitment Excellence Campaign (ACE)** — The Office of Disaster Assistance launched a comprehensive campaign to improve the responsiveness and efficiency of its operations in the following areas: loan application, loan approval, loan disbursement, technology services, administrative services, and personnel services. The goals were to re-engineer and enhance the consistency and responsiveness of ODA's end-to-end disaster loan process as well as improve the productivity and quality of work by ODA staff to disaster victims. ODA initiated and completed 164 action projects as part of the ACE Campaign. Currently there are 19 ACE action projects are under further development in the Disaster Credit Management System with staged in implementation dates ranging from present, through July 2009.

**Disaster Assistance Improvement Plan** — DAIP was mandated by the President in Executive Order 13411. The Order mandates that federal agencies create a single application that fulfills the information requirements of all applicable federal disaster assistance programs. As a federal partner included in the mandate, the SBA must provide program application content, data elements, identify funding requirements and sources, modify disaster assistance systems to interface with the DAIP and provide ongoing program and technical support. The SBA has participated in weekly meetings throughout 2008 and has met the goals set by the Order. Costs associated with complying with this mandate have been included in the upcoming budgets.

**Disaster Credit Management System (DCMS)** - The following improvements to the agency's DCMS have been completed:

- Increased Production capacity from 1500 to 12,200 concurrent users
- Upgraded Disaster Recovery Capacity from 400 to 12,200 concurrent users and full functionality

**House Committee on Small Business Hearing*****“Oversight of the Small Business Administration and its Programs”*** (from July 29, 2009)

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**Appendix 1: FY 2008 Annual Report on Disaster Assistance**

- Moved system hosting operations from shared services model to dedicated resources hosting model resulting in improvements in response times and program management
- Implemented enhanced hardware infrastructure improving automated processes and reducing manual system administration steps
- Implemented the Electronic Loan Application
- Implemented scalable virtualized environment to support ELA
- Major upgrade of Oracle database and Unix operating system
- Implemented changes to support 90 in 45 campaign
- Completed changes to support all ACE I Campaign projects
- Implemented 26 total ACE I and II projects

*The Executive Office of Disaster Strategic Planning and Operations (EODSPO)* – This office reporting directly to the Administrator was established in August 2008 to implement Farm Bill requirements.

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**(3) Effectiveness of the Disaster Loan Program based on Key Performance Indicators**

Key Performance Indicators	Type of Measure	FY 2008 Goal	FY 2008 Actual
Disasters having field presence within 3 days (%)	Output	95%	100%
Loans with initial disbursements within 5 days of loan closing (%)	Output	95%	99%
Time to process 85% of home applications (days)	Output	10	6
Time to process 85% of business physical applications (days)	Output	16	11
Time to process 85% of EIDL applications (days)	Output	16	12
Percentage of businesses sustaining Economic Injury restored within 6 months after final disbursement.	Outcome	80%	92%
Percentage of businesses sustaining physical damage that are restored within 6 months of final disbursement	Outcome	70%	69%
Percentage of Homeowners restoring their homes within 6 months of final disbursement.	Outcome	85%	71%
Percentage of Renters restoring their damaged property within 6 months after final disbursement.	Outcome	90%	73%
Customer Satisfaction Rate	Outcome	72%	65%

**House Committee on Small Business Hearing***"Oversight of the Small Business Administration and its Programs"* (from July 29, 2009)

Small Business Administration Response to Questions for the Record: August 2009

**Appendix 1: FY 2008 Annual Report on Disaster Assistance****FY 2008 Approval Figures**

Through September 30, 2008, the SBA approved 15,128 disaster loans for \$825,840,100 with the following breakdown:

Physical loans – 14,610 totaling \$768,435,100

Economic Injury loans – 518 totaling \$57,405,000

**FY 2009 (to date) Approval Figures**

Through July 31, 2009, the SBA has approved 20,896 disaster loans for \$1,087,348,400 with the following breakdown:

Physical loans – 20,264 totaling \$1,039,629,800

Economic Injury loans – 632 totaling \$47,718,600

**(4) Plans for responding to disasters during the next fiscal year**

Disaster Assistance goals for FY 2009 were revised to FY 2006 goals because it was determined that customer service was negatively impacted by further reducing the number of days to process loan applications.

The SBA, through its upgrades of the Disaster Credit Management System, plans to meet its FY 2009 and FY 2010 outcome and performance goals using fewer resources.

During FY 2009 and FY 2010, the Agency will continue to build upon the lessons learned as a result of past disasters, including the catastrophic 2005 Gulf Coast hurricanes. The Office of Disaster Assistance will continue to reevaluate and re-engineer business processes to meet the ever changing needs of the disaster victims it serves. The implementation of changes to office operations will be ongoing, and the changes will result in a more efficient operation which will reduce the staff necessary to process major disaster declarations and enhance customer service. Other SBA program offices including the Office of Field Operations, Office of Entrepreneurial Development, and Office of Capital Access will play an ongoing roll in delivering all SBA programs and services to the victims of disaster.

The SBA will continue to work with its federal partners to coordinate the delivery of disaster assistance available to disaster victims throughout the nation.

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**Appendix 2: DRAFT SBA Senior Leadership Seminar After Action Report**

### EXECUTIVE SUMMARY

This report provides a summary of discussion, issues and recommendations from the U.S. Small Business Administration (SBA) Senior Leadership Seminar (SLS) held April 29, 2008, in Washington, D.C. This seminar provided an opportunity for SBA leaders to discuss their respective roles, responsibilities and interests in the context of a facilitated, scenario-based discussion of a catastrophic disaster. The event was designed to enhance SBA's exchange of information and coordination during disaster response, as well as ensure the effectiveness of the Disaster Recovery Plan (DRP) and Leadership Guide.

The SLS Planning Team was comprised of senior leaders throughout several divisions within the SBA. Planning Team members included:

Name*	Title
Tom Alexander	Senior Disaster Analyst
Jovita Carranza	Deputy Administrator
Stephen Casapula	Senior Disaster Analyst
Robert Garland	Director, Program Policy and Evaluation
George Green	Deputy Director, Office of Performance Management
Colleen Hiam	Deputy Center Director, Customer Service Center
Cynthia Hsu	Senior Advisor, Office of the Administrator
Bill Jeggiero	Director, Customer Service Center
Heidi Mitchell	Associate Administrator for Disaster Assistance
James Rivera	Deputy Associate Administrator for Disaster Assistance
James	Senior Advisor for Policy Planning
Melinda Williamson	Field Operations Specialist

\*Names listed in alphabetical order.

The SLS Planning Team developed the following goal and objectives for the seminar:

#### Goal

To demonstrate the capability of SBA to effectively perform the Disaster Loan Program during a catastrophic event.

#### Senior Leadership Seminar Objectives

- To demonstrate an increased understanding and awareness of the Disaster Response Plan and the Leadership Guide across the agency.
- To simulate the execution of the Leadership Guide in a disaster scenario.
- To test the capability of the Disaster Executive Oversight Council during a disaster scenario.

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**Appendix 2: DRAFT SBA Senior Leadership Seminar After Action Report**

- To test the capability of the Disaster Management Operations Council during a disaster scenario.
- To demonstrate the capability of the SBA to surge during a disaster scenario.
- To demonstrate effective coordination and communication among SBA senior management.
- To test the surge capability of the SBA in people, resources and systems.

**SBA Senior Leadership Seminar Education Day**

On April 28, 2008, the SBA conducted an Education Day in advance of the SLS. The purpose of the Education Day was to prepare SLS participants for the seminar. The objectives of the day were:

- To increase knowledge to effectively participate in the SLS.
- To increase knowledge about the Disaster Loan Program before the 2008 hurricane season.

Additionally, in advance of the Education Day and the SLS, the SBA conducted a functional exercise in which the Office of Disaster Personnel (ODP) initiated the first Reservist Annual Readiness Assessment. The SBA initiated this exercise to gain an accurate assessment of personnel available to assist in surge operations. The SBA conducted the functional exercise by calling a random sample of Active and Ready Reservists to determine availability for return. A total of 800 Reservists were called. Assessment results reflected 73.9 percent Active Reservists were available and 53.1 percent Ready Reservists were available (See Appendix D for detailed results).

**Senior Leadership Seminar Scenario**

The scenario for this seminar involved two hurricane events, the first striking Florida and Texas, and the second, a Category 4 hurricane that caused flood and wind damage to homes and businesses from North Carolina through the Tidewater Region and into Pennsylvania. Among the challenges faced by SBA leadership was estimating the number of additional staff needed to respond to a disaster that damaged an estimated 900,000 structures; deciding whether to deploy regular SBA employees to fill staffing gaps while new personnel are trained; dealing with budget issues to ensure sufficient disaster loan funding; and responding to inaccurate media reports.

The scenario was comprised of three game periods, each focused on sequential disaster response activities throughout all of SBA. Situation Briefings described the progress of events, as well as federal, state, local and private sector activities that would be underway. Additionally, Special Topic Briefings were presented to educate participants or clarify new concepts identified in each game period. Several SBA external partners also participated in the SLS and described their roles in disaster response. Those partners included: the Federal Emergency Management Agency (FEMA), the U.S. Chamber of Commerce, the American Red Cross, the Internal Revenue Service (IRS), and the National Governors Association.

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**Issues Team**

The purpose of the Issues Team was to objectively observe the holistic response of the SBA to the scenario, rather than listening from a particular office’s or person’s perspective. The Issues Team provided a high altitude assessment of the manner in which the players addressed the scenario, tackled problems and worked together as a team to make sound decisions with the information at hand.

The Issues Team was comprised of the following individuals:

Name*	Title
Tom Alexander	Senior Disaster Analyst
Colleen Blum	Deputy Center Director, Customer Service Center
Carolee Brown	District Director, Pittsburgh District Office
Paulo Marrero	South Florida District Office, District Director
James VanWert	Senior Advisor for Policy Planning
Kim Fletcher	RCS Team

\*Names listed in alphabetical order.

The purpose of this report is to analyze seminar results, identify strengths to be maintained and build upon, identify potential areas for further improvement, and support development of corrective actions. Issues identified during the exercise are provided in Section 3, Analysis of Issues, Appendix A, Issues Summary, and Appendix B, Issues Submitted by Attendants. Issues Carried Forward: At the close of the exercise, participants were urged to continue tackling these problems and to determine what they could do to support the agency and help resolve these issues.

**Major Strengths**

The major strengths observed during this seminar are as follows:

- SBA personnel are fully engaged in supporting an SBA-wide “spirit of cooperation” to ensure sufficient response and recovery activities following a disaster.
- SBA personnel have conducted in-depth discussions to ensure all staff has a clear familiarity of agency-wide roles and responsibilities.

**Primary Areas for Improvement**

Throughout the exercise, several opportunities for improvement in disaster response activities were identified. The primary areas for improvement and recommendations are as follows:

- SBA’s disaster recovery activities will be enhanced by developing detailed

**House Committee on Small Business Hearing**  
**"Oversight of the Small Business Administration and its Programs"** (from July 29, 2009)  
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plans/procedures regarding the deployment of regular SBA staff to assist/deploy for short term capacities.

- SBA's disaster recovery activities will be enhanced by developing standard operating procedures (SOP) to guide SBA offices and divisions in logistics planning for deploying staff following a disaster.
- The current Leadership Guide should be reviewed and revised to reflect lessons learned during the development and execution of the SLS.

In addition to the numerous benefits of the SBA SLS, the seminar development process also yielded additional value in that there was broad and intensive involvement of many SBA senior leaders. The use of the SLS Planning Team led by Geoff Green demonstrated that adopting a central coordination entity for all emergency management functions could bring synergy to the organization on a day-to-day basis. It was clear that the coordination among the SLS Planning Team led to the identification of gaps in preparedness in need of attention. For example, there is no "program office" that manages the life cycle of homeland security and emergency management activities for SBA. It is noteworthy that such an office is being considered and an SES position has been advertised to lead it. The new office, when established, might consider assessing the current SBA homeland security and emergency management program against contemporary program standards such as NFPA 600 Standard for Emergency Management and Business Continuity Programs or the Emergency Management Standards by EMAP.

The SBA SLS provided an opportunity for senior leaders to identify and improve existing disaster response actions and activities. SBA holds many resources with proficient capabilities to respond to an emergency, however, no single office can respond alone. Agency-wide preparation and planning in times of peace enable a coordinated and effective response during a disaster.

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