Despite Reforms, SBA's Sandy Response Lags

A Report Prepared by the Democrats of the

House Committee on Small Business

Ranking Member Nydia Velázquez

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Executive Summary

Slow Processing Times

- The average loan processing time is significantly longer for applicants from Sandy compared to the two largest Atlantic storms since 2008, Hurricanes Ike and Irene.
- Homeowners and businesses impacted by Sandy experienced processing delays of 30 days and 46 days, respectively, a three-fold increase over previous processing times following other hurricanes.

Low Approval Rates

- Business loan approval rates are at near-record lows of just 24 percent. Since 2005, only Ike has resulted in a lower approval rate for SBA disaster loans.
- Over one-third of businesses withdrew their applications – a 20 percent increase over Hurricane Irene.

Long Delays for Disbursement

- Even among loans approved, disbursement of loan proceeds remains slow. As of the end of the first quarter of 2013, only 14.7 percent, or $215.5 million, has been disbursed.
- This rate of disbursement is significantly lower than 2011, when almost 40 percent of approved loans were disbursed five months after Irene.

Failure to Implement Resources/Tools

- Despite long wait times for loan approval and disbursement, SBA has not used all the statutory tools at its disposal to better assist distressed businesses.
    - SBA did not exercise its authority to utilize private contractors to process the influx of loan applications.
    - The agency has not implemented the Immediate Disaster Assistance Program even though final rules were enacted in 2008.
    - The Private Disaster Loan Program has not been implemented despite a Congressional requirement that the program be finalized by 2009.
- All of these initiatives were authorized by Congress specifically to enhance SBA's disaster response capabilities.

Introduction

Disaster Assistance has been part of the U.S. Small Business Administration's (SBA) mission since its creation in 1953. Through the agency's Office of Disaster Assistance, SBA provides affordable and timely financial assistance to disaster victims. When an area is declared a disaster by the President, various forms of federal assistance, including SBA's disaster loan program, become available. SBA's long-term recovery assistance is in the form of low-interest loans available to homeowners, renters, businesses of all sizes and private, non-profit organizations following a disaster.

Last year, the Northeast was struck by Superstorm Sandy – one of the worst storms to ever make landfall on American soil. Losses due to physical damage and business interruption are estimated at $75 billion, making it the second-costliest Atlantic storm, behind only Hurricane Katrina. Superstorm Sandy affected 24 states, including the entire eastern seaboard from Florida to Maine and as far west as Wisconsin. The impact was particularly severe in New York and New Jersey, where Governors Andrew Cuomo and Chris Christie expect damages in their states to exceed $33 billion and $30 billion, respectively.

The impact of natural disasters on small businesses is typically two-fold – direct physical damage to their business and loss of customers who were also impacted by the storm. As is common and seen after Superstorm Sandy, the electric grid and surface transportation infrastructure are severely damaged preventing owners and customers from resuming operations quickly. With an expectation of reduced sales due to outside forces, coupled with increased costs to rebuild structures and inventories, it is imperative that SBA process business loan applications quickly.

The first few months following a natural disaster are a critical period for small businesses. According to a recent survey of small businesses[1], 74 percent do not have a disaster recovery plan and 84 percent do not have disaster insurance. A majority of small businesses also expect their recovery phase to last more than a month or are unsure if they will fully recover at all. It has been estimated that over 40 percent of businesses that are damaged during a disaster fail to recover – and a year later, closer to 60 percent will actually go under.

SBA has responded to hundreds of natural disasters over the past twenty years, including several major storms. In that time, the United States has experienced the seven costliest Atlantic storms on record. These are Hurricane Katrina in 2005 (1st); Superstorm Sandy in late 2012 (2nd); Hurricane Ike in 2008 (3rd); Hurricane Wilma in 2005 (4th); Hurricane Andrew in 1992 (5th); Hurricane Ivan in 2004 (6th); and Hurricane Irene in 2011 (7th). After insurance proceeds, SBA has served as the primary source of financing for affected businesses and homeowners. In many instances, the agency's response to these major events has not been uniform.

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[1] A survey of 600 small business owners was conducted by Alibaba, Vendio and Auctiva in December of 2012.

This report provides evaluation of SBA's response to Superstorm Sandy and insight into the developing trends that have been seen in the disaster loan program since Hurricane Katrina, including processing intervals, staffing levels, and loan approval and disbursement rates.

Superstorm Sandy

Sandy has produced the largest application volume since Katrina in 2005. As shown in Table 1, nearly 81,000 applications have been submitted[2] and more than 31,900 loans have been approved for over $1.47 billion. SBA experienced sustained volume through the first three months of the application period, but has slowed substantially in February and March. Application submission peaked in December with 35,702 applications received but trailed off by roughly 50 percent each month thereafter.

Table 1: Sandy Disaster Loan Application Volume by Month

	November	December	January	February	March	Total
Total Applications						
Received	14,693	35,702	18,181	7,575	4,770	80,921
Processed	5,830	16,429	20,728	17,994	14,509	75,490
Backlog	8,863	28,136	25,589	15,170	5,431	
New York Applications						
Received	9,764	22,363	11,100	4,052	2,233	49,512
Processed	3,689	10,666	13,298	10,702	8,146	46,501
Backlog	6,075	11,697	15,574	8,924	3,011	

Superstorm Sandy has left a lasting impact on New York City and its residents. Infrastructure, including inter-borough tunnels and the subway system, has sustained billions in damage; the small business community has been severely disrupted; and thousands of families lost their homes and possessions to water and wind damage. In November, New York City Comptroller John Liu said the storm cost New York City $200 million a day in lost economic activity, and topped well over $1 billion.

New York City and its surrounding counties have produced the largest volume of applications, for both business and home loans. Through March 31th, New Yorkers have submitted 49,512 applications, or 61 percent of the total. Accordingly, SBA has deployed the greatest percentage of resources to the region. At its peak, 80 Disaster Recovery Centers, 34 Business Recovery Centers, and 44 Mobile Disaster Recovery Centers were set up in the New York City area to assist businesses and homeowners affected by the storm.

Lack of Personnel has Delayed Loan Processing

Lack of staff, both in the field and in-house, partially resulted in delays in disaster loan processing. As shown in the Table 2, the average loan processing time is significantly longer for applicants from Sandy compared to the two largest Atlantic storms since 2008, Hurricanes Ike

[2] This still only accounts for 25% of volume seen after Katrina.

and Irene. Homeowners and businesses impacted by Sandy experienced processing delays of 30 and 46 days, respectively, a three-fold increase over previous times.

Table 2: Comparative Application Processing Times by Loan Type per Event

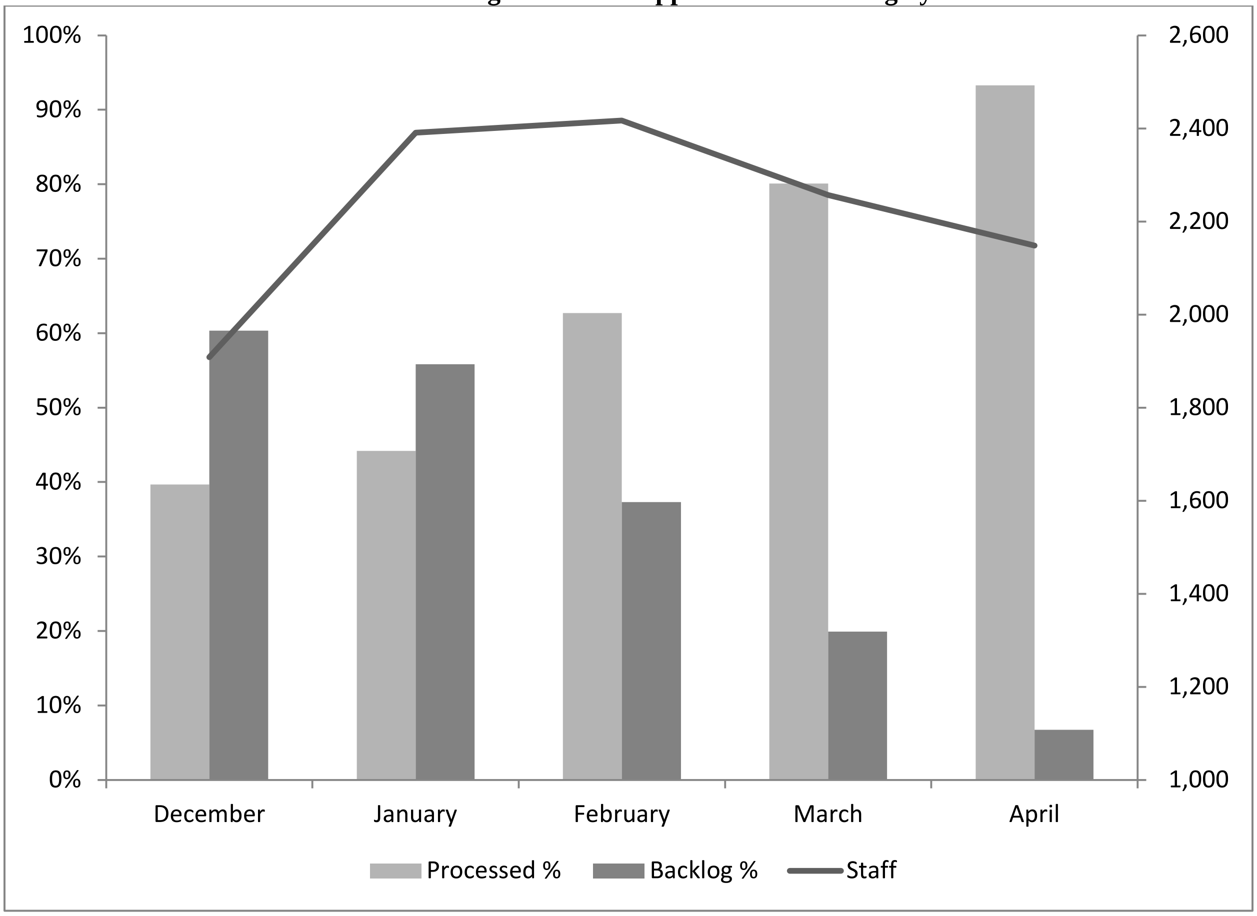
	Sandy	Irene	Ike
Physical Business Loan	46 Days	14 Days	15 Days
EIDL Business Loan	40 Days	11 Days	15 Days
Home Loan	30 Days	9 Days	7 Days

After Sandy made land fall on October 29, 2012, it was immediately followed by a significant stretch of freezing weather and snow. The average low temperature in NYC is 41 degrees Fahrenheit in November and 32 degrees in December. When faced with harsh weather conditions, a delay in loan processing or disbursement can exacerbate physical damage and increase costs on homeowners and businesses.

SBA took nearly two months to staff-up in vital areas such as the Loan Processing and Disbursement Center and in-field staff. This compares unfavorably to staffing after Hurricane Ike when SBA was able to double critical staff in two weeks[3]. After increasing staff levels, SBA has been able to reduce the backlog from 60 percent to 7 percent of applicants over the past five months, as shown in Chart 1.

[3] See Table 4.

Chart 1: ODA Staffing Levels and Application Processing by Month



SBA Staff Were Overwhelmed by Application Volume

At the time Superstorm Sandy made landfall, SBA had over 1,100 disaster employees ready to respond. This figure included 253 field staff to support operations in the affected area and 506 employees in the Loan Processing and Disbursement Center. Although SBA was able to add 415 in-field staff and another 335 Loan processors by December 1st, it was not enough to keep up with the rate that applications were being submitted. During that month, each loan processor was handling 27 applications per month, as shown in Table 3. This application volume per employee is significantly higher than that experienced during Hurricane Irene. After that storm, SBA was able to staff up much faster, and as a result, loan processors only had 13 applications to handle during peak time. SBA was also more efficient at processing applications for Hurricane Irene during the first 3 months of disaster response. As shown in Table 3, by the second month, SBA staff was able to process as many applications as they were receiving after Irene, while it took three months for staff to reach equilibrium following Sandy. As will be discussed later in this report, the significant demand placed on SBA personnel due to understaffing was a factor contributing to excessive loan processing delays.

Table 3: Sandy ODA Personnel Levels by Month

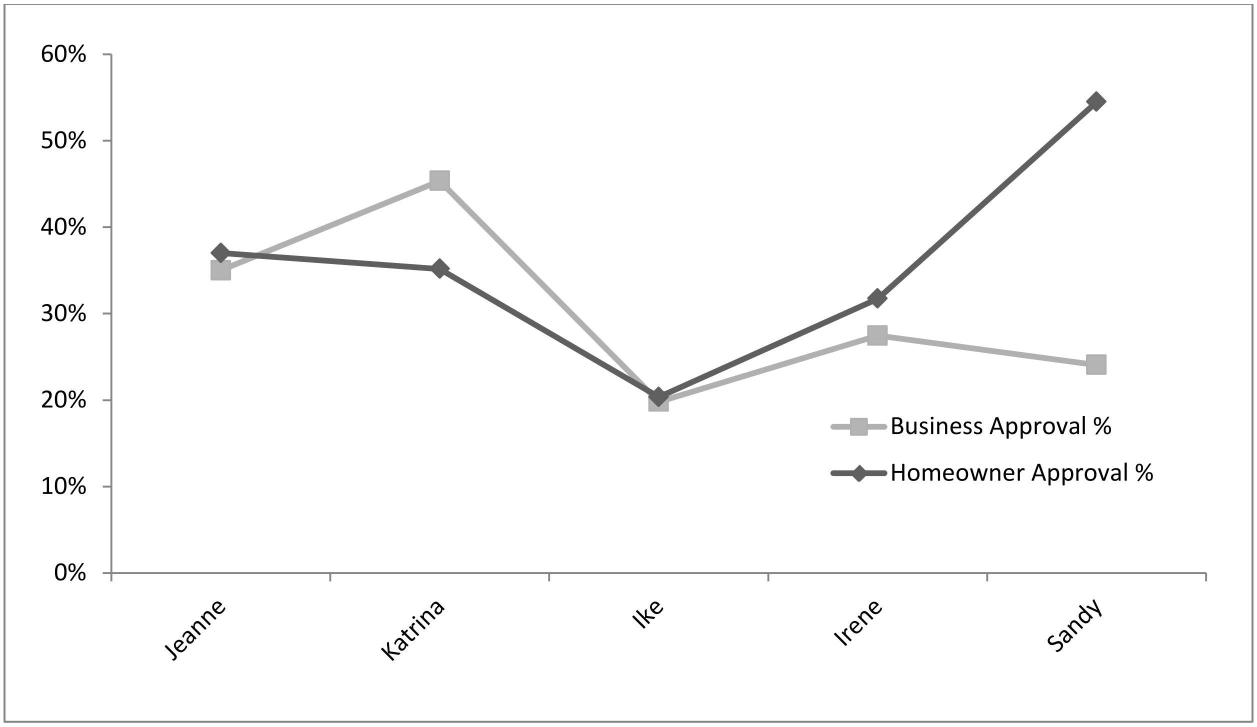
Month after storm	0	1	2	3	4	5
Superstorm Sandy						
Total ODA Staff	1,113	1,908	2,391	2,417	2,257	2,148
Processing & Disbursement Staff	506	841	1,331	1,411	1,510	1,439
Applications per P & D Staff		17	27	13	5	3
Applications processed per P&D Staff		7	12	15	12	10
Hurricane Irene						
Total ODA Staff	1,123	1,720	1,302	1,127	1,140	958
Processing & Disbursement Staff	492	694	738	732	720	599
Applications per P & D Staff		11	13	18	3	1
Applications processed per P&D Staff		7	13	17	4	1

Business Loan Approval Rates are Down from Previous Disasters

As shown in Chart 2, approval rates for Sandy applicants have been inconsistent across different loan types. Business loan approval rates, both physical and EIDL, are at near-record lows of just 24 percent. Since 2005, only Hurricane Ike has resulted in a lower percentage of businesses receiving SBA disaster loans. In addition, over one-third of businesses withdrew their applications, a 20 percent increase over Hurricane Irene.[4] A number of reasons for the low business loan approval rate have been proposed, including: onerous SBA lending standards, weakened creditworthiness due to the recession, new business' lack of credit history, or an inability to take on additional debt. In a positive sign for homeowners, approval rates have reached 55 percent, a level not seen in 20 years.[5]

[4] Five months after Superstorm Sandy, 35 percent of businesses have withdrawn their applications. This compares to a 28 percent withdraw rate following Hurricane Irene.
[5] In 1992, homeowner approval rate was 57 percent following Hurricane Andrew.

Chart 2: Disaster Loan Approval Rate per Storm

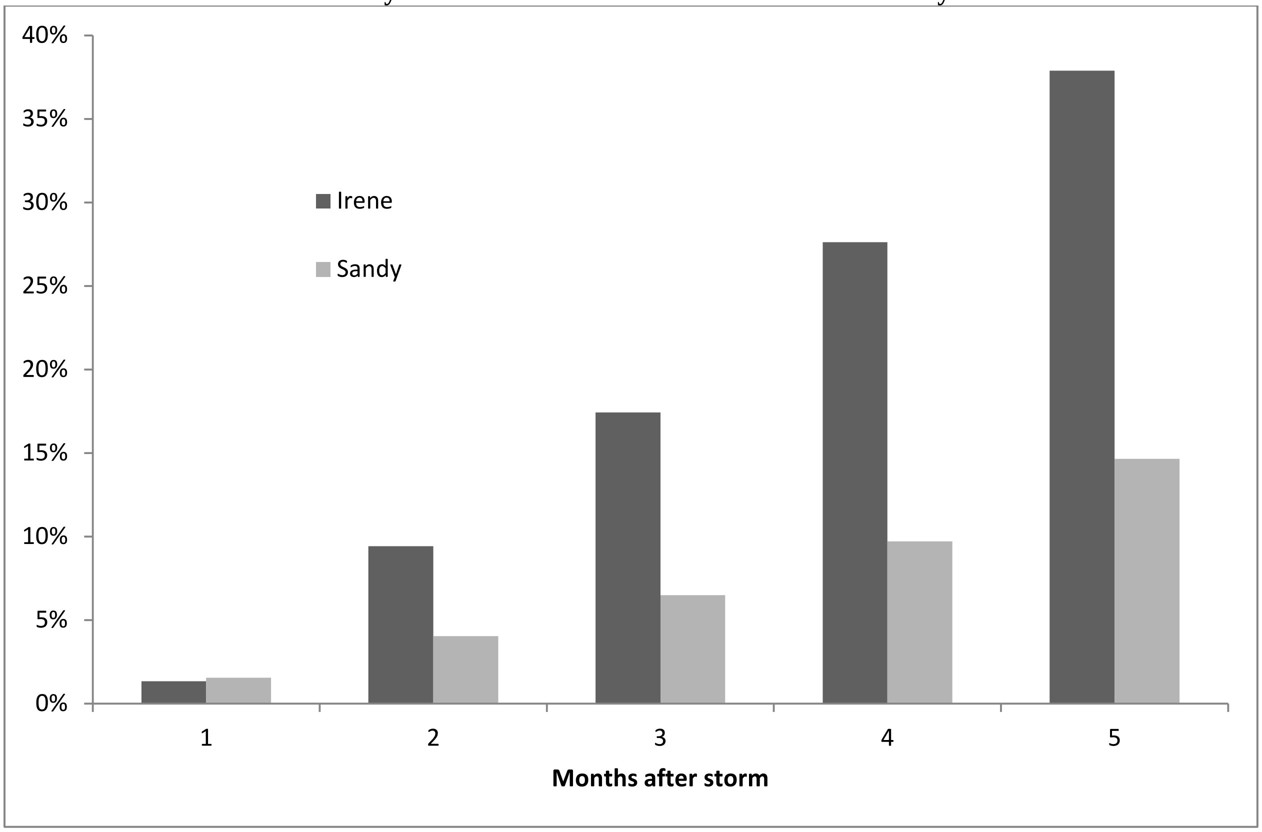


Low Disbursement Rates Likely Caused by Lack of SBA Personnel and Processing Delays

Loan approvals represent only one measure in determining the impact SBA is having in response to Superstorm Sandy. Loan approvals represent an interim step in the loan process – namely SBA's affirmative response to an application. However, once approval is granted, SBA must facilitate loan closing, which can often take weeks or even months.

An alternative – and perhaps more accurate measure of the agency's effect on the New York City economy – is loan disbursements. Disbursements reflect the amount of financial resources that businesses or homeowners have actually received from SBA. Only a small fraction of the $1.47 billion approved has been drawn down in the five months following the storm. As of March 31st, 14.7 percent, or $ 215.5 million, has been disbursed. The rate of disbursements is down significantly from 2011, when almost 40 percent, or $78 million, of approved loans were disbursed in the five months after Hurricane Irene.

Chart 3: Sandy and Irene Disaster Loan Disbursement Rates by Month



<u>Atlantic Storm Comparison: 2005-2011</u>

Hurricane Katrina

Hurricane Katrina was the costliest natural disaster in U.S. history. Economic damages have exceeded $108 billion and 1,200 lives were lost.[6] According to GAO, SBA received about 280,000 applications during the first 3 months following Hurricane Katrina. Due to a number of factors, the loan application backlog grew to over 200,000 applications within four months. To reduce the backlog, SBA hired several thousand additional staffers to process and disburse loans. However, many new loan officers had no loan processing experience and were unable to handle the volume of applications pouring in. As a result, response times averaged 74 days.[7] It should be noted, SBA's goal was to process applications within 21 days.[8] As shown in Table 4, this compares unfavorably to processing times for other Atlantic storms, including Superstorm Sandy. The extensive delays in loan processing and disbursement forced businesses to close permanently and homes to sustain damage to the point they became uninhabitable.

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[6] NOAA Technical Memorandum NWS NHC-6, "The Deadliest, Costliest, and Most Intense United States Tropical Cyclones from 1851 to 2010 (and other frequently requested hurricane facts)," August 2011, http://www.nhc.noaa.gov/pdf/nws-nhc-6.pdf

[7] GAO Report: "Actions Needed to Provide More Timely Disaster Assistance," GAO-06-860.

[8] Id.

Hurricanes Ike and Irene

Hurricanes Ike and Irene presented SBA with its first significant tests following the poor response to Hurricane Katrina. Together, these storms resulted in $50 billion in damage. As shown in Table 4, response times improved dramatically which was likely due to a rapid increase in staff level following the storms. After Hurricanes Ike and Irene, SBA was able to add 112 percent and 54 percent more staff, respectively, in less than one month. As a result, average processing times dropped from 74 days to 12 days, a six-fold improvement in efficiency. However, SBA's efficiency has dropped and processing times are now averaging 38 days for Superstorm Sandy applicants. Rapidly adding staff played a significant role in reducing processing times for Ike and Irene, improving the chances that businesses could recover and homes could be saved.

Table 4: Selected SBA Disaster Response Data

	Application volume	Average Response Time	Additional Staff After 1 Month	Applications per Additional Staffer
Katrina	318,953	74 Days	-	-
Ike	55,597	12 Days	1,428	39
Irene	27,611	12 Days	597	46
Sandy	80,921	38 Days	795	102

Better use of available tools could have improved SBA's response to Superstorm Sandy

SBA Did Not Utilize Private Contractors to Help Process Loan Applications

In response to the federal government's handling of Hurricane Katrina, Congress overrode President Bush's veto to enact the Food, Conservation and Energy Act of 2008[9] (the "Act") (P.L. 110-234). Title XII, subtitle B of that Act contained the Small Business Disaster Response and Loan Improvements Act of 2008, designed to reform SBA's disaster program. To better handle loan processing and loss verification, the Act gave SBA the authority to contract with private lenders, loan processors, and loss verification companies to improve response times and ensure deserving businesses and homeowners received the funds necessary to rebuild and recover from natural disasters.

SBA did not exercise this authority in its disaster response to Sandy, even when faced with significant loan demand. As shown in Table 1 above, by the end of December, SBA had received roughly 50,000 applications, but only processed 22,250, or 44 percent. By March 31st, five months since the disaster, 5,400 applications, or 7 percent, remain outstanding. In response to an inquiry by House Small Business Committee Democratic staff, SBA stated "[it] has been able to handle the volume of loss verification without the use of other lenders or loan loss verification professionals. Additional outside assistance has not been needed." However, 3,000 small businesses and 2,000 homeowners still wait for their applications to be processed well over four months since Superstorm Sandy made landfall. Authority to use private contractors at times of heavy application volume was intended to help SBA meet its performance goal of 21 days from

[9] Colloquially known as the 2008 Farm Bill.

receipt of the application to decision.[10] As a result of SBA's initial assessment that contractors were not necessary, wait times for Superstorm Sandy victims average 30 days for homeowners and 46 days for businesses.

SBA Has Not Implemented the Immediate Disaster Loan Program

Partnering with private contractors is just one of the new tools available to SBA to more efficiently process and disburse disaster loans in affected areas. Section 12084 of the 2008 Farm bill amended the Small Business Act to create a new disaster loan specifically designed to provide emergency bridge loans to businesses that are waiting for traditional disaster loans to process and close. The Immediate Disaster Assistance (IDA) program authorized SBA to provide an 85 percent guarantee on IDA program loans up to $25,000 made by participating lenders. These loans are intended to provide immediate relief to small businesses that meet the eligibility standards for a regular disaster loan.[11] Lending decisions are made within 36 hours of applying for the loan.

Although the law was enacted back in 2008, interim final rules were drafted in 2010 and a final rulemaking was released in January 2012, SBA has not yet made any loans under the Immediate Disaster Assistance Program. The administration had over 4 years to implement the Immediate Disaster Assistance Program before Sandy devastated the New York City region.

For Superstorm Sandy, the average business disaster loan amount is $107,000 and takes 46 days to be approved. It should be noted that this does not include the time it takes to close and disburse the loan. If the IDA program was implemented at the time Sandy made landfall, it is likely business loan processing times would have been reduced substantially and the average business would have received partial funding within days instead of weeks. The quick turnaround and immediate capital infusion the IDA program was designed to provide could have helped some businesses that failed stay in business, supported job retention, and, ultimately, hastened the recovery in affected communities.

SBA Has Not Implemented the Private Disaster Loan Program

In addition to the Immediate Disaster Assistance Program, the 2008 Farm bill also includes provisions to create a private disaster loan program (PDL program). Section 12083 of the 2008 Farm bill authorized SBA to provide an 85 percent guarantee on PDL program loans made by participating lenders for up to $2 million dollars. Loans made under the PDL program follow the same guidelines and underwriting requirements as SBA-originated disaster loans.[12]

As with the IDA program, SBA has not implemented the PDL program at this time. The Act required regulations to carry out the program to be finalized by 2009. In response to an inquiry by House Small Business Committee Democratic staff about the four-year delay, SBA stated

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[10] SBA Disaster Preparedness and Recovery Plan 2012, http://www.sba.gov/sites/default/files/Disaster%20Recovery%20Plan%202012.pdf

[11] See section 7(b) of the Small Business Act.
[12] See section 7(b) of the Small Business Act.

"SBA has not yet made any loans under the Private Disaster Assistance Program. Once the IDAP pilot is operational, SBA expects to move forward with developing the Private Disaster Assistance Program."

The purpose of PDL program is to have private lenders with sufficient lending capacity and personnel absorb some of the demand if SBA is unable to handle lending volume after a natural disaster. As shown in Table 1 above, SBA experienced significant application volume in the first three months following Superstorm Sandy, resulting in a backlog that peaked at 28,000 applications and remains at roughly 5,400. Had the PDL program been implemented at the time Sandy made landfall, private lenders could have stepped in to underwrite and disburse disaster loans in affected areas. SBA should complete implementation of the IDA and PDA programs immediately to improve federal disaster response, increase private sector participation, and ultimately help victims recover more quickly after future storms.

Conclusion

Although SBA's response was better than that for Hurricane Katrina, application processing times and disbursement rates were significantly worse than those of Hurricanes Ike and Irene. Homeowners and businesses impacted by Sandy experienced processing delays of 30 days and 46 days, respectively, a three-fold increase over previous processing times. At its peak, the agency employed over 2,400 disaster program staff, but 47 percent of applications remained outstanding. After waiting for over a month, many applicants were ultimately denied a loan – 45 percent of homeowner and 76 percent of businesses were turned away. Disbursements are also down significantly, with only 37 percent of approved borrowers drawing from their loans and less than 15 percent of the approved amount being disbursed.

In order for SBA to respond more effectively to future disasters, the agency must improve personnel mobilization and fully implement the Small Business Disaster Response and Loan Improvements Act of 2008. After nearly five years, SBA has yet to authorize lending under the IDA and PDL programs which were specifically designed by Congress to incentivize private lenders to get involved in disaster recovery. In this time of deep federal budget cuts, private sector involvement in the disaster loan program could improve processing times and increase approval and disbursement rates.

Over the past five months small businesses and residents in affected states, but particularly in the New York City region, have been trying to recover and rebuild their livelihood. In order for communities to properly reconstruct following any disaster, immediate and adequate disaster assistance must be provided. Implementation of the IDA and Private Loan programs should have been completed before Superstorm Sandy made landfall to ensure SBA had all its tools available to assist homeowners and small businesses impacted by the storm.