KATRINA – ONE YEAR LATER: BUSH ADMINISTRATION CONTINUES TO FAIL SMALL BUSINESSES

AUGUST 2006

HOUSE COMMITTEE ON SMALL BUSINESS
DEMOCRATIC STAFF
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KEY FINDINGS

OVERVIEW

- The Small Business Administration's (SBA) response to the 2005 Gulf Coast hurricanes has been marked by high decline rates and massive delays, requiring businesses to wait up to 100 days to receive a decision regarding their applications for financial assistance. These delays were caused by a variety of factors including insufficient infrastructure, outages of critical IT systems, and haphazard hiring by the agency.

- The SBA has reported that they have approved loans in excess of $10 billion; however, barely 20 percent – or just $2 billion **-** has actually found its way to business owners. Given estimates that each $1 billion in assistance would create or retain 30,000 jobs, this additional assistance could provide a considerable boost to the region's local economies.[1]

DELAYS

- In the months after Hurricane Katrina, the backlog for both loss verification and application processing ballooned, reaching a peak of 204,000 total applications in December 2005. According to the Government Accountability Office (GAO), the average wait time, not including the time for loan closing, was 74 days, while the agency's goal was 21 days.

- In addition to delays, business owners faced severe bureaucratic impediments, in which applications were misplaced or lost, phone calls were not returned, and contradictory information was provided.[2]

APPROVAL RATES

- The current administration's response – measured in terms of approval rates – to major hurricanes lags that of previous administrations. The current administration has approved**,** on average**,** 38 percent of disaster applications, a 35 percent decline from the 59 percent approval rate under the two previous administrations.

- In response to Hurricane Andrew in 1992, the federal government approved nearly 60 percent of applications, well above the 38 percent that was approved for Hurricane Katrina, the 29 percent that was approved for Hurricane Rita, and the 38 percent that was approved for Hurricane Wilma.

- In an attempt to explain the low approval rates for the 2005 Gulf Coast hurricanes, SBA Administrator Hector Barreto stated that "the approval rate …[is] going to continue to go up…"[3] However, this improvement has not materialized as the approval rate for Hurricane Katrina has essentially been flat and remained at or near 38 percent since the Administrator's comments.

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[1] SBA has estimated that for every $33,000 in SBA financial assistance, one job is created or retained.
[2] Based on comments of business owners during testimony before U.S. Congress.
[3] Testimony before the U.S. House of Representatives Committee on Small Business, March 15, 2006.

PLANNING FAILURES

- The agency's disaster response fell short due to a lack of planning and preparedness.

- By not using catastrophic risk modeling or participating in major disaster simulation model exercises, the agency did not obtain necessary information to prepare and train for potential disasters. It has not yet taken steps to incorporate such modeling into its planning efforts – a key deficiency cited by GAO.

- In the midst of the 2005 Gulf Coast hurricanes, Administrator Hector Barreto stated that the "Office of Disaster Assistance is staffed up to meet the demands of this disaster."[4] Prior decisions to downsize staff created shortages when the 2005 Gulf Coast made landfall.

- While the workforce increased dramatically, inadequate processing systems left many new employees untrained, underutilized, and frustrated. The agency failed to demonstrate how new employees would be used, what training they have received, and what role they would have when they were not responding to disasters.

- During testimony before Congress, Administrator Hector Barreto stated, "I would also like to address the press accounts of computer problems in the Office of Disaster Assistance (ODA). Nothing could be further from the truth."[5] Now it appears that Mr. Barreto's statement could not be further from the truth as the agency experienced 45 system outages during its response to the 2005 Gulf Coast hurricanes.[6]

- Most recently, the Inspector General found that the agency has not fully stress tested the core IT system – known as the Disaster Credit Management System (DCMS) – responsible for processing disaster loans. Without such testing, a shutdown could occur during high volume periods.

- According to the GAO, the SBA unknowingly received substandard IT components from contractors, resulting in less capacity to process disaster loans.

- Attempting to address loan payment problems, the GO Loans program was established. Six months after the program was implemented, only 222 loans had been approved for only $19 million – a paltry amount when compared to the $10 billion in disaster loan approvals.[7]

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[4] Testimony before the U.S. House of Representatives Committee on Small Business, October 7, 2005.
[5] Ibid.
[6] GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.
[7] GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.

INTRODUCTION

One year after the 2005 Gulf Coast hurricanes made landfall, the region's small businesses continue to be hampered by a federal response that remains painstakingly slow. These hurricanes – including Katrina, Rita, and Wilma – have directly affected thousands of small businesses in the region. These businesses form the foundation of the region's economy and their recovery is essential to the revitalization of this area. Twelve months later, however, the federal government has yet to address the systematic problems and substantial delays that left these local firms without the assistance they needed.

Six months after the hurricanes, only 42,168 of the 81,000 local New Orleans area businesses had fully reopened, 20,268 had partially resumed operations, and nearly 20,000 had yet to reopen or had no plans to reopen.[8] With regard to the restaurant industry – which is vital to the local economy and generally comprised of small firms – 43 percent of the retail food establishments had been certified to open.[9] Similarly, the hotel industry also continues to struggle to regain its prior strength, with only 64 percent of local hotels and bed and breakfasts reopened.[10] Given that the region's economic foundation is tourism and entertainment, the resurgence of small, locally owned restaurants and hotels is key to the region's rebirth.

The Gulf Region's small businesses face substantial challenges due to the slow progress made in the repair of key infrastructure. Only 66 percent of public schools are open, 17 percent of buses are operational, and only 55 percent of hospitals have reopened.[11] Prior to the hurricanes, New Orleans Louis Armstrong International Airport had nearly 450,000 passengers arriving per month.[12] In May 2006, passenger arrivals had declined by nearly 40 percent. These significant barriers demonstrate small businesses need for quick and effective financial assistance.

The Small Business Administration (SBA or agency) disaster loan program was created with the intention of providing low interest loans and working capital to businesses and homeowners devastated by disaster. The initiative has been utilized countless times over the past several decades – providing immediate assistance to thousands of businesses and homeowners. The current administration, however, has failed to properly implement the disaster program, leaving many small firms without the financial assistance they need.

Unfortunately, the response has been marked by high decline rates and massive delays, requiring businesses to wait up to 100 days to receive a decision regarding their applications for financial assistance. During this period many small firms went bankrupt, while others became so economically weakened that their future operations were severely affected. These delays were caused by a variety of factors including insufficient infrastructure, outages of critical IT systems, and haphazard hiring.

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[8] *New Orleans Facts and Statistics*, New Orleans Tourism Marketing Corporation, February 2006.
[9] *Katrina Index*, The Brookings Institution, July 12, 2006.
[10] Ibid.
[11] Ibid.
[12] Ibid.

Due to these delays, small business owners have been struggling to rebuild their livelihood. In order for communities to reconstruct, the federal government should have provided immediate and sufficient federal financial assistance to small businesses. As this report demonstrates, the administration failed substantially in this regard. The inability to provide timely aid to local businesses – and the failure to take the necessary corrective actions – is an unfortunate display of the administration's deficient response to large-scale disasters.

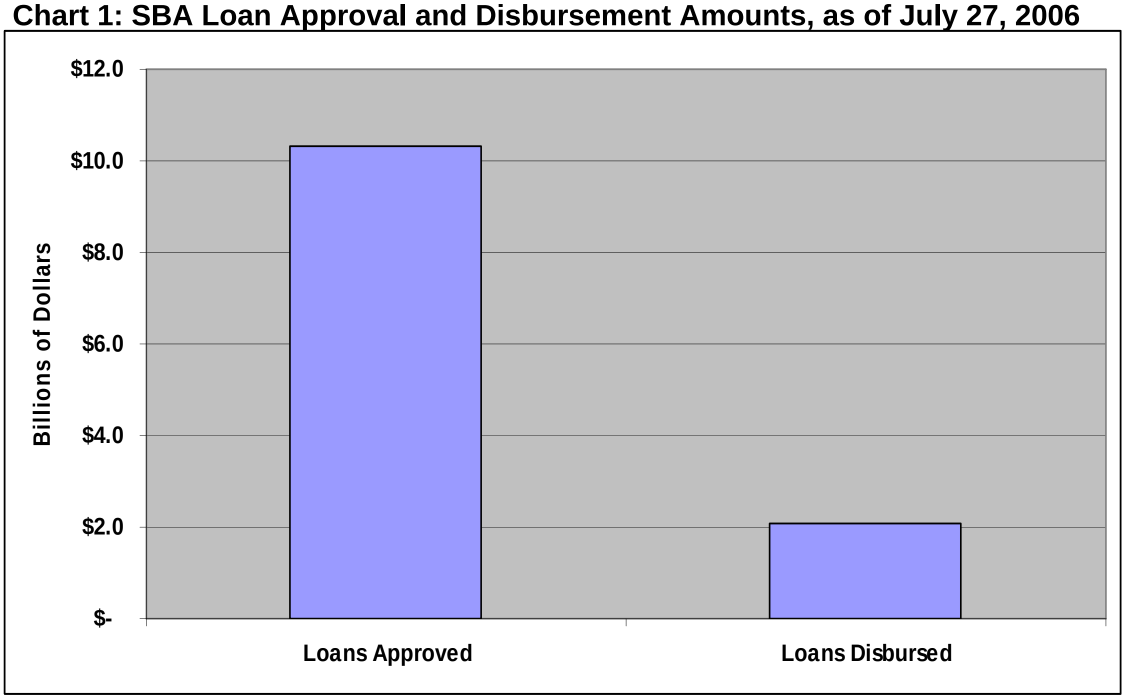
SMALL BUSINESSES ARE STILL NOT GETTING ASSISTANCE

One year after Hurricane Katrina made landfall, Gulf Coast businesses are still not receiving funds even though the SBA has approved their loans. As a New Orleans entrepreneur stated last year, "Small businesses in the Gulf Coast need assistance now. There are many who may not make it through if they don't get immediate relief."[13] Loan disbursements – which represent the amount of money small businesses have actually received – are only a small fraction of loan approvals. The SBA has not undertaken any changes to increase the rate at which disbursements are made, leaving many business owners eager to rebuild without the resources to do so.

The SBA has reported that they have approved loans in excess of $10 billion; however, barely 20 percent – or just $2 billion has actually found its way to business owners. (See chart 1 below). This means that small businesses are still waiting for financial assistance one year after their operations and facilities were damaged.

With unemployment rates in the region well above national levels, it is more important than ever to quickly channel funds to the Gulf Region's business community.[14] Given estimates that each $1 billion in assistance would create or retain 30,000 jobs, this assistance could provide a boost to the region's local economies.[15]

Chart 1: SBA Loan Approval and Disbursement Amounts, as of July 27, 2006



Source: Small Business Administration.

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[13] Testimony of Randy Perkins, U.S. House of Representatives Committee on Small Business, October 7, 2005.

[14] *Katrina Index*, The Brookings Institution, July 12, 2006. Unemployment rates for June 2006: New Orleans Metro Area, 6.4 percent; Mississippi, 7.3 percent; United States, 4.6 percent.

[15] SBA has estimated that for every $33,000 in SBA financial assistance, one job is created or retained.

The inability to provide business owners with their funds in a quick and effective manner has left many without the assistance they need to rebuild. While the agency has attempted to improve the disbursement process, bureaucratic hurdles persist and have made business owners hesitant to draw on funds. This in turn has delayed the long-term recovery of local economies and more broadly, the Gulf Region. Until steps are taken to improve the disbursement process and enable business to quickly draw on approved funds, the economic revitalization of the region will be slower than it would be otherwise.

PROCESSING DELAYS AND BACKLOGS HARMED BUSINESS OWNERS

Business owners affected by the 2005 Gulf Coast hurricanes needed immediate financial assistance to make emergency repairs and maintain their payroll. Unfortunately, that assistance has not been provided in a timely manner and corrective actions have not yet been taken to ensure that similar problems will not occur in the future. A New Orleans small business owner testified to this before Congress, “While waiting to hear if our loan was approved, we continued to struggle with the mounting losses of our business. We could no longer pay salaries and had to let employees go.”[16]

The agency had not considered that a disaster of the magnitude of the 2005 Gulf Coast hurricanes would occur. The systems, processes, and workforce were unable to keep pace with the needs of small business owners – causing delays of up to 100 days. While the agency has made internal system changes, it is unclear what parameters these changes were based upon and whether or not they will be sufficient to handle future disasters. To this end, the GAO could not determine what information the agency considered when it made recent system changes and whether they were appropriate, meaning that these same delays very well could occur again.

In addition, the agency failed to participate in disaster simulation exercises, which would have enabled system stress tests and an evaluation to take place. One such exercise that was disregarded was the well-known Hurricane Pam exercise that permits federal, state, and local disaster agencies to test their plans and operations in staged disaster conditions. By not pursuing these planning efforts, the agency was unprepared when the Gulf Coast storms hit and was forced to rely upon ad hoc decisions and actions. Even one year later, it has not participated in a disaster simulation exercise, leaving many employees without important skills and experiences necessary to respond to atypical disasters. As a result, concerns continue to persist regarding the SBA’s capabilities to respond to large-scale disasters.

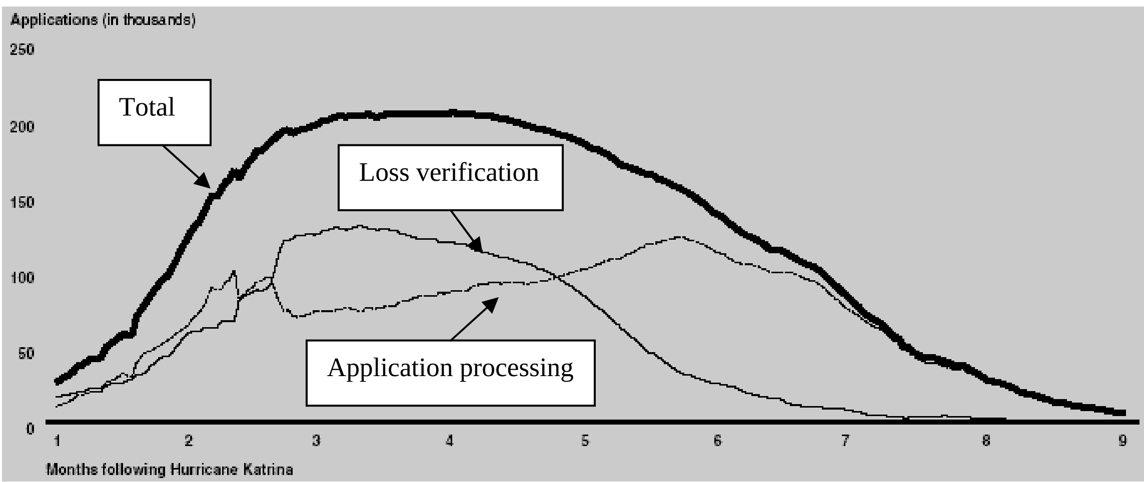
Former SBA Administrator Hector Barreto stated, “I continue to hear claims that our processing system … is faulty or poorly designed. That is not true….”[17] However, the processing system produced massive backlogs and, according to the GAO, such backlogs occurred in two distinct areas: loss verification and application processing.[18]

[16] Testimony of Patricia Smith, U.S. House of Representatives Committee on Small Business, March 15, 2006.
[17] Testimony before the U.S. Senate Committee on Small Business and Entrepreneurship, November 8, 2005.
[18] Loss verification is the process in which a potential borrower’s losses from physical damage are reviewed. At this time, agency personnel examine the property and estimate the cost to repair the property. After this, the application is processed (“application processing”), in which potential borrowers’ creditworthiness and eligibility are evaluated.

In December 2005, one month after Administrator Hector Barreto testified that the "SBA has dealt with and overcame issues with our loss verification system, modifying processes to improve efficiency," the *loss verification* backlog peaked at 129,200 applications.[19] (See chart 2 below). The *application processing* backlog continued to grow until March 2006 at which time it peaked at 121,700 applications. The *total* backlog – the sum of the loss verification and application processing backlogs – reached a peak of 204,000 total applications in December 2005.

While the steps have been taken to address these problems, it is unclear what is being used as the basis for its processing capacity. As a result, it is unknown if the disaster loan program will be able to fully meet small businesses needs.

Chart 2: SBA Processing Backlogs, October 2005 to June 2006

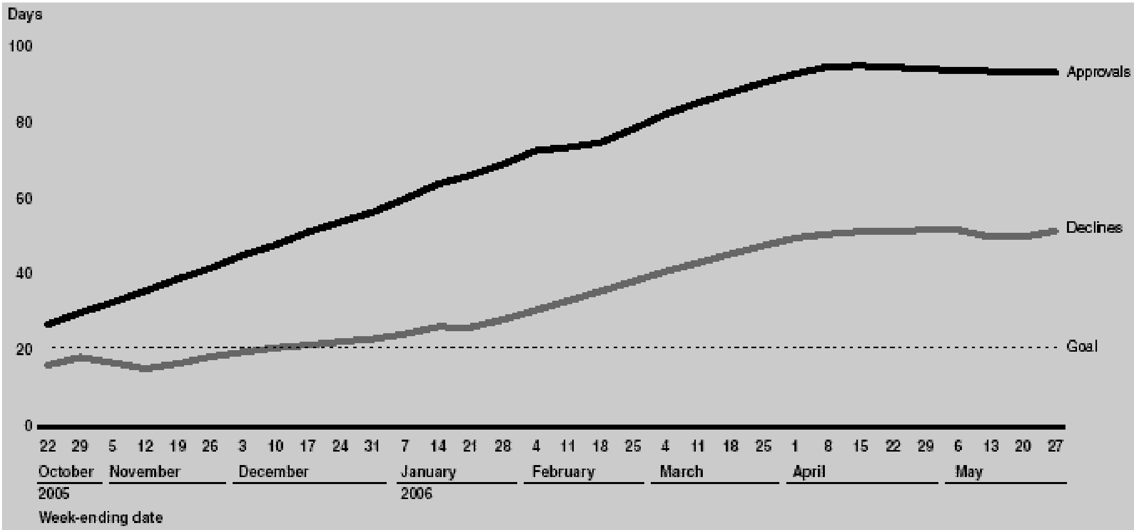


Source: GAO analysis of SBA data for 2005 Gulf Coast hurricanes. GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.

For business owners, large backlogs translated into long wait times. According to the GAO, the average wait time, not including the time for loan closing, was 74 days, while the agency's goal was 21 days. (See chart 3 below). This often meant that critical repairs had to be postponed or delayed indefinitely, further impairing local firms. Even worse, many small businesses had to close completely due their inability to secure immediate financial assistance. As a local business owner stated, "When there is no income coming in, business has all but stopped, and there are existing expenses and costs to cover – 3 months is just too long to have to wait for assistance."[20]

[19] Testimony before the U.S. Senate Committee on Small Business and Entrepreneurship, November 8, 2005.
[20] Testimony of Randy Perkins, U.S. House of Representatives Committee on Small Business, October 7, 2005.

Chart 3: SBA Processing Times, October 2005 to May 2006



Source: GAO analysis of SBA data for 2005 Gulf Coast hurricanes. GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.

Completing and submitting an application for disaster assistance was no easy task after the 2005 Gulf Coast hurricanes. In addition to delays, business owners faced severe bureaucratic impediments, in which applications were misplaced or lost, phone calls were not returned, and contradictory information was provided. Even routine communications took enormous effort on behalf of small businesses, leading to high levels of frustration within the local communities. One small business owner summed this up by stating, "We need assistance now – and we need a champion for our interests. The SBA has NOT been that champion – instead throughout this ordeal, the agency, while it has a lot of good people, has been wasting my time."[21]

Gulf Coast businesses waited to hear a final decision for up to 100 days, as they struggled with mounting losses and bills that became due. Many could no longer meet their obligations, worsening the local economic conditions in the region. Making matters worse was that many struggling businesses could have secured work through the recovery and reconstruction efforts, but often had to turn such opportunities down because of a lack of staff and equipment. If assistance had been provided in a fashion, many of these businesses would be thriving now, instead of continuing to struggle.

Loan processing was hampered by the lack of a private sector partnership with local financial institutions. If the agency had the forethought to establish a partnership with these local lenders, this network could have been quickly implemented and used to compliment existing loan processing activities, reducing delays and ensuring that businesses received their assistance more quickly. Eventually, an attempt to improve processing and disbursements delays was made by entering into agreements with the private sector, but it came too late and had only a minimal effect. As a result, thousands of businesses are still waiting for assistance one year after these tragic events.

[21] Testimony of Patricia Smith, U.S. House of Representatives Committee on Small Business, March 15, 2006.

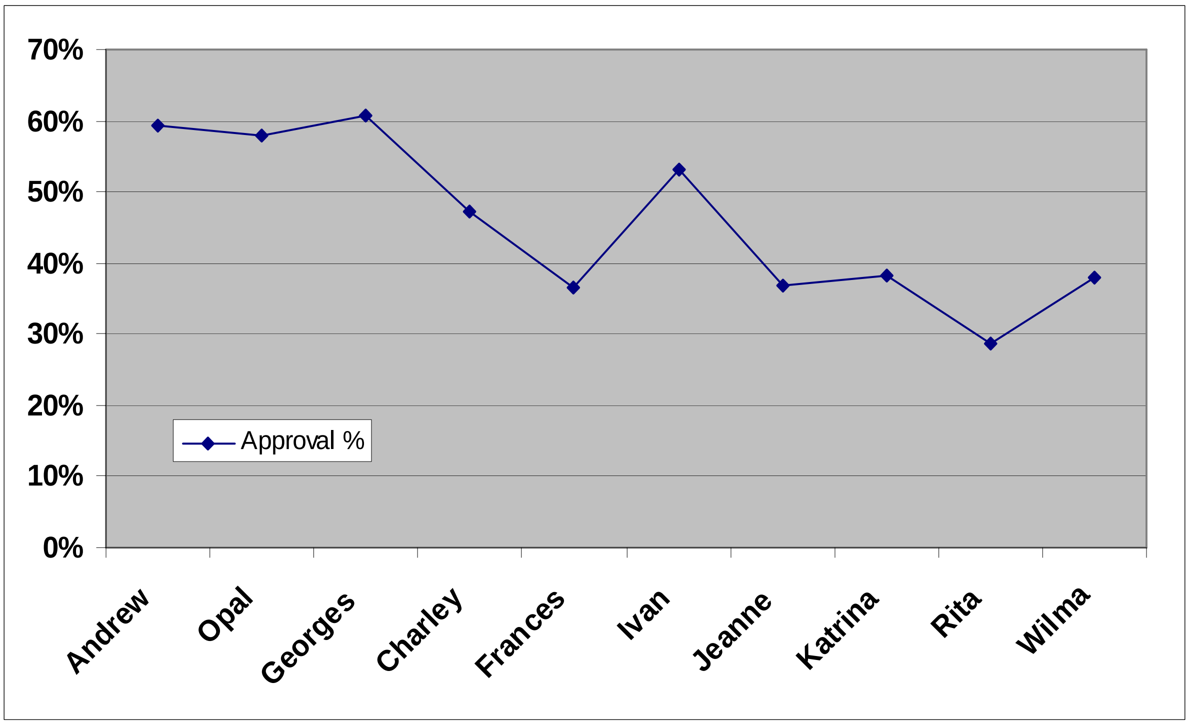
While the SBA has established a private sector partnership, this arrangement is insufficient to provide the resources necessary to reduce loan processing backlogs. By not fully utilizing private sector partners, the agency has created yet another layer of bureaucratic complexity in what is already a tedious and confusing process.

Small businesses have been subject to massive processing delays that were caused by the agency's insufficient IT systems, a lack of management know-how, and a failure to recognize problems when they occurred. Instead, the SBA chose to embrace its flawed approach**,** not reaching out for assistance or revising its methods to meet the disaster's circumstances, which remain unchanged to date. As a result, Gulf Region business owners have paid a rather steep price – and one that keeps growing even today. For businesses impacted by future disasters, the lack of corrective action suggests that long delays will be the norm, rather than the exception.

SMALL BUSINESSES RECEIVE LESS DISASTER ASSISTANCE

A previous Committee on Small Business report detailed the federal response to major hurricanes over the past fifteen years.[22] These included three Category 5 hurricanes (Katrina, Rita, and Wilma) that made landfall in the Gulf Region during Fall 2005; the four hurricanes that affected Florida in 2004 (Charley, Frances, Ivan, and Jeanne); Hurricane Georges (1998; the third costliest hurricane of the 20th century); Hurricane Opal (1995; which devastated parts of Florida and Alabama); and Hurricane Andrew (1992; which is the second costliest hurricane after Hurricane Katrina). In response to these hurricanes, financial assistance was provided to small businesses.

Chart 4: Historical Approval Rate, Selected Major Hurricanes



Source: Small Business Administration.

The current administration's response – measured in terms of approval rates – to major hurricanes has been well below that of previous administrations. The current administration has approved on average 38 percent of disaster applications, a 35 percent decline from the 59 percent average approval rate under the two previous administrations. This declining trend is evident even though demographic and geographic similarities exist between pre-2004 hurricanes and those occurring in 2004 and 2005.

[22] *Trends and Analysis of SBA Disaster Loan Program*, House Committee on Small Business, March 2006.

When evaluating individual hurricanes, the comparison is even more striking. In response to Hurricane Andrew in 1992, the federal government approved nearly 60 percent of applications, well above the 38 percent that was approved for Hurricane Katrina, the 29 percent that was approved for Hurricane Rita, and the 38 percent that was approved for Hurricane Wilma. Hurricane Andrew is a particularly reasonable barometer for measuring the federal government's response to Hurricane Katrina, as it was a large hurricane that made landfall in predominantly urban areas. With regard to hurricanes Katrina, Rita, and Wilma, this means that more people were turned away than were actually provided with financial assistance.

In an attempt to explain the low approval rates for the 2005 Gulf Coast hurricanes, SBA Administrator Hector Barreto stated that "the approval rate …[is] going to continue to go up…"[23] However, this improvement has not materialized as the approval rate for Hurricane Katrina has essentially been flat and remained at or near 38 percent since the Administrator's comments. Unfortunately, no new incentive has been implemented to improve the channeling of emergency financing to small businesses. Until this takes place, local firms impacted by disasters will not be able to count on disaster assistance.

[23] Testimony before the U.S. House of Representatives Committee on Small Business, March 15, 2006.

ONE YEAR LATER -- ADMINISTRATION HAS STILL NOT TAKEN CORRECTIVE ACTIONS, WHICH COULD HAMPER PREPAREDNESS FOR FUTURE DISASTERS

GAO and congressional investigations have found that the response to 2005 Gulf Coast hurricanes left many small businesses without the assistance they needed. While these failures cover a wide-range of issues, they are all tied together by one overarching agency misstep – a disregard for the importance of agency-wide planning and preparation. (See chart 5 below). Disaster response has become just another routine task, as the agency continues to operate in a reactive mode, which makes it ill-equipped for responding to complex, ever-evolving disasters.

Chart 5: SBA Failures During 2005 Gulf Coast Hurricanes

Issue	SBA Failure	Action Taken
Agency-wide Disaster Plan	Lacked formal planning mechanism for responding to large-scale disasters.	Disaster Oversight Council created, which lacks focus and clearly defined objectives.
Disaster Modeling/Simulation	Failed to incorporate catastrophic disaster modeling or widely available disaster simulation data into its projections.	Has not participated in simulation, nor has it incorporated disaster modeling into planning efforts.
Workforce Surge Plan	Hired workers in a haphazard and uneven manner.	Has not demonstrated how newly hired employees will be used, what training they received, or what role they will play during down times.
IT Capacity	Insufficient capacity, widespread systems outages, and insufficient technical support were commonplace.	System capacity not tied to any analysis of need; leaves agency guessing during major disasters.
Vendor Oversight	Inadequate procurement processes led to reliance on incorrect hardware and lapses in critical IT support	Same processes from 2005 disaster response continue to be used.
IT Stress Testing	Failed to stress test critical IT systems.	Has not fully stress tested core disaster response IT systems.
Real Estate Arrangements	Did not enter into agreements to secure additional office space.	Has not developed long-term contingency arrangements.
Financial Management	Improperly managed financial and budgetary obligations for disaster loan program.	No new systems in place to monitor agency disaster spending and agency obligations.
New Initiatives	Give a Lending Hand Initiative and GO Loans Program were poorly designed and failed to accomplish their objectives.	New private sector arrangements are very narrowly focused and may lead to longer processing times.

Source: Committee on Small Business, GAO, and Small Business Administration.

Planning

The agency's disaster response fell short due to a lack of planning and preparedness. In fact, there is no centralized function with the responsibility to plan and prepare the agency's response to disasters. The surge plan, which should have been created to maintain agency functions after a major disaster resulted in massive loan volume increases, is merely a set of guidelines lacking specific implementation details.

Overlooked was how the agency would operate under severely strained conditions, including real estate arrangements for relocation emergencies, alternative transportation strategies for workforce and equipment, and access to telecommunication infrastructure. Instead, the plan was designed to respond to less catastrophic conditions than those imposed by the Gulf Coast hurricanes, and, consequently, staff and managers lacked established directives to quickly address major crises.

The agency has stated that it will form an agency-wide Disaster Oversight Council comprised of senior management and staff. While the mission of the new Council is to leverage agency resources and incorporate new ideas and best practices into the disaster program, it is unclear how or when these goals will be accomplished internally given the lack of a formalized disaster response and preparedness structure. Furthermore, the Council lacks the authority to make the types of improvements necessary to effect real change within the program. Finally, the mission does not include any mention of improving planning capability, which is the key deficiency within the disaster program. As a result, it appears that the Council's mission is mismatched with its capabilities.

Disaster Modeling and Simulations

By not using catastrophic risk modeling or participating in major disaster simulation model exercises, the agency did not obtain necessary information to prepare and train for potential disasters. Scenario planning would have provided the staff with the experience needed to operate in difficult conditions and given senior management knowledge of the types of the events – such as a major Gulf Coast hurricane – that they would have to respond to. While the agency has signaled that it will use a model to forecast loan volume after a disaster strikes, it has not taken steps to incorporate such modeling into it's planning – a key deficiency cited by GAO.

Disaster preparedness also requires effective cross-agency implementation and coordination. Joint project financing, program administration, and information sharing are critical to providing timely, comprehensive services for businesses in affected areas. SBA continues, however, to operate largely in isolation.

Workforce

In the midst of the 2005 Gulf Coast hurricanes, Administrator Hector Barreto stated that the "Office of Disaster Assistance is staffed up to meet the demands of this disaster."[24] This statement was misleading as the delayed response was directly attributable to insufficient institutional workforce capacity. Decisions to downsize staff created staff shortages when the 2005 Gulf Coast made landfall.

Thousands of employees were therefore hastily hired to process disaster loans without adequate training and management oversight. While the workforce increased dramatically, inadequate processing systems left many new employees untrained, underutilized, and frustrated. As a result, loan processing productivity did not increase as additional loan processors where hired. Greater resource expenditure did not translate into an equal increase in assistance to businesses and homeowners affected by the major 2005 hurricanes.

When additional employees were hired, it was done so in a haphazard and inefficient manner. Simply hiring new employees, without the necessary strategic planning, may lead to an inefficient allocation of resources. The agency has failed to demonstrate how these employees will be used, what training they have received, and what role they will have when they are not responding to disasters. Until these questions can be answered, it is uncertain that human resources are effectively deployed to meet the needs commensurate with a large-scale, complex disaster scenario.

IT Systems

During testimony before Congress, Administrator Barreto stated, "I would also like to address the press accounts of computer problems in the Office of Disaster Assistance (ODA). Nothing could be further from the truth."[25] Now it appears that Mr. Barreto's statement could not be further from the truth as the agency was in the midst of severe computer problems – including 45 system outages during its response to the 2005 Gulf Coast hurricanes.[26] In its report to Congress GAO states, "[SBA] users experienced outages, difficulties connecting to the system, and slow response times in completing loan processing tasks."[27]

Unfortunately, a new loan processing system was implemented in the midst of hurricane season. While the new system has been called a more efficient and productive disaster loan processing system, the processing delays and backlogs demonstrated otherwise. In response to the 2005 Gulf Coast hurricanes, the system was incapable of handling high volumes of loan applications.

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[24] Testimony before the U.S. House of Representatives Committee on Small Business, October 7, 2005.
[25] Ibid.
[26] GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.
[27] Ibid.

While attempts were made to address these failures, it is unclear what the agency used as its basis for its recent changes to the disaster program. Capacity was added to its processing system, but it is unclear whether the arbitrary levels chosen will be sufficient. In addition, it is unclear if similar system outages will not occur again during high-volume usage.

According to the GAO, the SBA unknowingly received substandard IT components from contractors, resulting in less capacity to process disaster loans. This was caused by the lack of sufficient vendor oversight procedures, which should require the inspection of purchased goods. Until a more thorough procedure is implemented, it will not only be difficult to accurately monitor contractors' performance, but also to ensure that the agency has the capacity necessary to respond to large scale disasters.

Most recently, the Inspector General found that the agency has not fully stress tested the core IT system – known as the Disaster Credit Management System (DCMS) – responsible for processing disaster loans. This leaves the federal government without the knowledge of whether or not its critical IT systems will function during major disasters.

Financial Mismanagement

The administration did not properly manage its financial and budgetary obligations for the disaster loan program. In December 2005, the program was heading towards financial insolvency. Congress approved an emergency infusion of $441 million and authorized the transfer of an additional $100 million from other sources into the disaster loan program. Without the financial readiness to fulfill its mandate, the agency neglected its role in assisting small businesses affected by disasters and also raises the potential for a future program shutdown.

Initiatives to Overcome Agency Deficiencies

In recognition of major problems with its disaster loan program performance, several initiatives were enacted to meet lingering needs of business owners impacted by the 2005 Gulf Coast hurricanes. Attempting to address loan payments problems, the GO Loans program was established, in which the agency permits lenders to use their own forms and provides an 85 percent guarantee. At the time SBA Administrator Hector Barreto stated that this new program "will unleash the liquidity and expertise of commercial banks."[28]

To the contrary, given the program's high interest rates (up to 13.5 percent) it did not meet the needs of businesses impacted by the hurricanes. In fact, six months after the program was implemented, only 222 loans had been approved for only $19 million – a paltry amount when compared to the $10 billion in disaster loan approvals.[29] The agency's attempt to pursue alternative financing schemes did not only prove insufficient but also shifted resources from proven methods and existing programs, leaving many without the assistance they need.

[28] Testimony before the U.S. Senate Committee on Small Business and Entrepreneurship, November 8, 2005.
[29] GAO Report #GAO-06-860, "Small Business Administration, Action Needed to Provide More Timely Disaster Assistance"; July 2006.

CONCLUSION

One year after the 2005 Gulf Coast hurricanes, the region's small businesses are still waiting for assistance, as the approval rate for Hurricane Katrina is 38 percent**,** and only $2 billion of the $10 billion in loan approvals has been disbursed to small businesses. These long delays have not only caused many viable small businesses to fail that would have otherwise survived, but has contributed to the slow recovery of the local economy. Unfortunately, the administration has not learned the lessons from these tragic events – as its approach is largely unchanged and key solutions remain on the shelf.

A more robust disaster loan program is integral to the federal government's response to disasters and to ensuring that small businesses are given the resources they need to rebuild. Processes must be implemented that meet the immediate and long-term needs of firms affected by disasters, including reducing the delays for receiving assistance that have become the hallmark of the administration's response. In addition, steps must be taken to decrease the application processing backlogs that plagued the response to the 2005 Gulf Coast hurricanes. Finally, the existence of adequate resources must be ensured, both in the form of qualified staff and operational infrastructure.

In several key areas, the agency chose not to make changes to its approach to disasters. Failures to fully implement a clearly defined and functional disaster planning mechanism in the agency remains the SBA's largest oversight to date. A comprehensive plan should be developed for large-scale disasters, which is a critical first step in the preparation for unconventional events. The failure to participate in disaster simulations and fully incorporate disaster modeling in its planning efforts will limit the agency's responsiveness to large-scale disasters.

A lack of vision in incorporating private sector partners into the disaster program has led to a less nimble response than it should be. And finally, senior federal officials continue to view the agency's role in disasters as a small part of the rebuilding and recovery process; however, the role of channeling financial assistance to the local economy is anything but trivial. Until its role in responding to disasters is given more emphasis, it will be difficult if not impossible for the necessary changes to be made.

The untimely and haphazard response to the very real needs of small businesses and residents in the Gulf Coast region highlight inadequate institutional processes, resources, and decision-making. Making matters worse is that the federal government has yet to make the changes to ensure that small business are protected and can survive future disasters.

Until the implementation of corrective measures, those affected by future disasters will unfortunately bear the consequences. Given the broad impact of the 2005 Gulf Coast hurricanes and the potential for similar events to occur in the future, the administration still has not met the needs of businesses affected by disasters and must provide the tools and resources necessary for small firms to deal with the financial realities of these events. Doing so will ensure that local firms are able to fully rebuild, create new jobs, and provide the growth that is vital to the rebirth of the Gulf Region's economy and to protect other areas impacted by disaster.