

**Statement of
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**U.S. Senate
Committee on Small Business and Entrepreneurship
Hurricane Katrina Relief Efforts**

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Good morning, Chair Snowe, Ranking Member Kerry and distinguished Members of this Committee. Thank you for inviting me to discuss the Small Business Administration's (SBA) Office of Disaster Assistance (ODA) continuing efforts to provide relief to the victims of Hurricanes Katrina and Rita.

I am accompanied again by Herb Mitchell, the Associate Administrator for Disaster Assistance, and also by Mike Sorrento, Director of the Disaster Credit Management Center.

It is clear to all of us here today that hurricanes Katrina and Rita unleashed an unprecedented tragedy on the Gulf Coast demanding an unprecedented response from the Federal government, including the SBA. The numbers are staggering. In just 70 days, SBA received over 220,000 disaster loan applications; in just 10 weeks that's already 5.5 times the total number we received in the year following Hurricane Andrew.

To put this in perspective, after the four hurricanes last year, SBA received 202,102 applications—one half of what we expect now and LESS than what we received in the first 70 days.

This disaster affected over 90,000 square miles and five states; we've mailed out nearly 2 million applications to residents and business owners of the Gulf Coast. SBA expects that we may yet receive another 160,000 applications, requiring us to process ten times the number we received following Hurricane Andrew. Even the largest disaster SBA has dealt with, the Northridge Earthquake that had 250,000 applications will not match the response required here. 250,000 applications is a huge number, but we have almost surpassed this in the first 70 days following Katrina and will dwarf that response in the days to come.

SBA has been criticized for our response, but at no point has anyone, in the press or elsewhere really focused on those facts and the overwhelming task my employees at the Office of Disaster Assistance face, or the simple facts about SBA's disaster loan program. As I pointed out in my previous testimony, the SBA disaster loan program has always been designed to be the engine for facilitating long-term recovery of disaster damaged areas of our Nation. It was never designed or intended or implemented to serve as a source of immediate cash on hand or a grant program. If anything, we may have become a victim of our own success – in other, smaller

disasters, Hurricanes Opal or George, we responded with a speed that could not hope to be duplicated in an event the size of Hurricane Katrina.

Despite this massive disaster and the velocity of the volume that has reached us, SBA has responded. A month ago when I testified before this committee the Office of Disaster Assistance had doubled its staff. In the short time since the Office of Disaster Assistance has doubled its staff again and continues to grow to meet the needs of the disaster. SBA now has over 3,700 employees in the Office of Disaster Assistance. They are working non-stop, seven days a week, 18 hours a day to handle the volume of requests. We have over 225,000 square feet of operations at our Fort Worth loan processing center.

We have literally exhausted the market for business loan officers, but that has not stopped us. To respond to this unprecedented disaster we are temporarily transferring experienced SBA lending staff to our Fort Worth processing center and the backup center in Sacramento, and we have initiated a program "Give a Lending Hand" to ask banks and lenders around the country to lend SBA experienced loan officers as Special Government Employees, to assist in processing the loans.

"But we don't think that is enough, and so I am announcing a new pilot program to strengthen and expand the role of local commercial banks in accelerating the recovery and rebuilding of small businesses. This new program is called "GO-loans", and it is a pilot that employs streamlined, expedited processing driven by banks under the direction of SBA. Go Loans will allow banks that are PLP and Express lenders to use simplified loan procedures – their own forms and underwriting - to get working capital into the hands of small businesses in the Gulf region. These loans will be available up to \$150,000 dollars and have an 85 percent guarantee, and applicants will have a decision in 24 hours or less. Go Loans responds to the eagerness of the private sector, the banking community, to play an important role in the rebuilding of small businesses. It will unleash the liquidity and expertise of commercial banks, and the program will be open for business this week. Chair Snowe, I would like to thank you and your staff for working with us so that we may implement this pilot as soon as possible."

I continue to hear claims that our processing system, DCMS is faulty or poorly designed. That is not true, we currently have the system accepting over 5,000 applications a day, and already have 180,000 applications in the system, 35,000 of which have been processed. At that rate, we would have had all the applications from Hurricane Andrew entered in a week. As a matter of fact, we entered over 39,000 applications last week – you can't do that on a bad system.

What has SBA done in response to this volume? We have 2,900 users on the DCMS system right now, expanding the system from its original 1,500 user capacity. We anticipate adding another 100 users, doubling our capacity. But we are not stopping there; we are working to expand the system to handle an additional 5,000 users beyond that. Again, you can't double capacity on a broken system.

Chair Snowe, Senator Kerry your staff saw our scanners in operation on their visit to our Fort Worth processing center. They saw the scanners working efficiently, contrary to press reports, and we appreciate their willingness to see for themselves. At that time the Fort Worth center was scanning hundreds of pages an hour. SBA decided that was not fast enough, and now we are scanning over 70,000 pages in a day – over a page a second in an 18 hour day. By the time I finish my testimony today, ODA will have scanned in roughly forty applications.

In response to Hurricane Katrina SBA established a pilot program with the Internal Revenue Service to replace a cumbersome old process of faxing forms back and forth. When your staff visited, that system let us electronically input 1,500 tax transcripts a day, but we were just ramping up. Today, SBA now has electronic access to 5,000 transcripts a day, and the IRS has been known to exceed that.

SBA has dealt with and overcome issues with our loss verification system, modifying processes to improve efficiency. SBA teams have now completed more than 50,000 verifications working at a terrific pace. Remember that our loss verification teams had no access in many places until after Hurricane Rita. That meant we lost weeks, time we can't get back. Our verification teams are still hampered in their access. I was in Plaquemines Parish, Louisiana two weeks ago. There are still ships aground on the roadways, but our teams will keep moving.

I have also heard concerns from Members of Congress about the number of declines under the disaster loan program. First, let me state that SBA's credit and underwriting standards have not changed. We do not change our lending standards from year to year and disaster to disaster. Our declines have not increased because of DCMS or our automated processing. What has changed is that SBA is now giving a more accurate account of applications and declines. Under our old file tracking system, disaster employees performed a manual step to screen out applications that were obvious declines. Applications handled under the screening decline were not entered into the ALCS system, so those declines did not show up in our approval rates, they were simply referred to DHS/FEMA for grant assistance. Under DCMS all applications are entered and counted.

I must also reiterate many of our applicants do not come to SBA looking for a loan. Low-income applicants come to SBA specifically seeking a decline to enable them to avail themselves of DHS/FEMA's grant program and other assistance programs. This is a long standing requirement under the Stafford Act. SBA helps verify eligibility for DHS/FEMA assistance. We process these declines quickly, as we have always done, to help those people obtain assistance.

Chair Snowe, the fact is SBA has approved over \$350 million in loans to over 5,000 homeowners and businesses. This is more loans than we had approved in either hurricanes Opal or Georges or Isabel. We are currently approving loans at nearly \$20 million a day and that number is steadily increasing.

However, as I said before, the SBA's disaster loan program is a long-term recovery program. To try and speed processing we have had to think "outside the box" and push the envelope on our credit and underwriting processes and generally look for any way possible to

shorten our processing while still maintaining our fiduciary responsibility. We are still making all possible efforts to expedite assistance to small business borrowers. Several weeks ago we expedited our business loan processing by limiting the amount of financial information needed from small business borrowers. More recently, we implemented a new system to speed approval of business borrowers. However, at the end of the day we can not expect to shoehorn a long-term recovery program into short-term needs. Nor can SBA simply approve loans and worry about the underwriting later.

For the short term needs of small business we will work with the states to assist them in their bridge loan programs. As we have done in the past with the state of Florida, the Office of Disaster Assistance will work with Louisiana and Mississippi to coordinate the purposes of the programs and to establish co-payer relationships when such loans are refinanced through the SBA disaster loan program.

In addition, SBA has been working with our lending partners in the affected areas to encourage and expedite 7(a) and 504 lending. Since the hurricanes hit SBA has guaranteed loans of over \$100 million in the affected areas. Last week, SBA lending for Katrina and Rita exceeded \$10 million.

I also want to talk about our accomplishments in government contracting. As I told you at the last hearing SBA had assigned four (4) Procurement Center Representatives (PCRs) to Hurricane Katrina related contracting, and I detailed Judith Roussel, an experienced career employee to coordinate our contracting outreach efforts. There are now 5 PCRs working on Hurricane Katrina contracting. In addition, I have assigned several career senior executives with significant procurement experience to work on initiatives to bring more small businesses into the vendor pool for the recovery effort. In brief, at every level of SBA, we are engaged in this important work.

Our Office of Government Contracting is meeting with Small and Disadvantaged Business Utilization (SDBU) officers from all major agencies to help focus on small business opportunities. SBA is also working with the General Services Administration (GSA) to establish up to date sourcing lists for small businesses and helping small businesses enter the Central Contractor Registration (CCR) database of small businesses available for contracting for reconstruction and clean up in the Gulf region.

SBA is committed to making sure that our small business customers receive fair opportunities to help in the rescue, relief and reconstruction effort and continues to use a variety of resources to match small businesses with hurricane Katrina contracting opportunities. Since February, the SBA has increased the number of Procurement Center Representatives (PCRs) stationed at acquisition activities throughout the country to advocate on behalf of all small businesses by nearly 30 percent. While all SBA PCRs are providing assistance to small businesses interested in participating in the rebuilding efforts, SBA has increased the number of specifically dedicated PCRs to five. Working with Federal agencies, including the Department of Homeland Security and the Federal Emergency Management Agency, they identify relief and reconstruction contract and subcontracting opportunities for small businesses. These PCRs, as

well as others, are also working closely with small business vendors to assist them in locating procurement actions that they may be capable of performing.

Additionally, SBA District Office and PCR staff are providing “hands-on” assistance to small businesses that are new to the Government’s procurement arena, to obtain necessary registrations and certifications to be able to compete for prime and subcontract actions. SBA is also actively collaborating in the area with the President’s Urban Entrepreneur Partnership, which is helping local minority firms prepare for and perform on government and private sector contracts, particularly through the Ewing Marion Kauffman Foundations intrusive coaching program.

The SBA is working with the Army Corps of Engineers to ensure that opportunities exist for small businesses to participate on contracts for the Gulf Coast recovery and reconstruction. Our efforts to date include exploring procurement strategies that we believe will expand the number of small businesses, including local 8(a) and HUBZone firms, participating in these contracts. To optimize the participation of local small businesses, we are also using our field staff and resources partners to verify the operational capacity of local small businesses, and then provide listings of these firms to the Army Corps of Engineers. In addition, we will expedite the processing of Mentor-Protégé agreements and provide priority processing of 8(a) and SDB certification applications from firms in the affected area.

Finally, SBA has worked with the Department of Commerce and other agencies to establish the Hurricane Contracting Information Center. SBA has been helping to make this portal a single location for small businesses to access assistance and contract information from the various contracting agencies. During the Center’s first three weeks, contracting specialists have taken 3,476 phone calls, and the HCIC’s website has had 56,712 visits to date. During the week of Oct. 24-30, HCIC fielded 1,081 calls Monday thru Friday, and the website received 15,683 visits during the past 7 days.

All of these efforts have been effective. To date, small business has been awarded over 45 percent of the contracting dollars put out for Hurricanes Katrina and Rita cleanup and recovery. At the last hearing I told you of an 8(a) action for multiple award roofing contracts worth up to \$150 million. Last Friday, SBA and FEMA announced \$1.5 billion in 8(a) and small business set-asides contracts. But those are only the largest examples, small businesses are being awarded many more contracts, each one an important step in assisting in the revitalization of the Gulf Coast economy. As I said, SBA is working hard with the Small and Disadvantaged Business officers at each agency and the results are there - the General Services Administration has reported over \$260 million in small business contracting, the Department of Homeland Security over \$257 million, EPA over \$34 million, just as examples.

SBA has also scheduled numerous Business Matchmaking Events in the Gulf Region but these are different from our usual events. SBA’s Gulf Coast Business Matchmaking initiative has been created to assist small businesses whose primary customer base has been greatly decreased, displaced or in some cases eliminated by the affects of Hurricane Katrina.

SBA started this initiative on November 1, 2005 with an eight-day, six-city mobile registration tour of affected areas in Alabama, Louisiana and Mississippi conducted by SBA and

its team of procurement experts who will register affected small businesses to participate in the initiative. The mobile tour will visit central locations in six cities - Baton Rouge, New Orleans, Gulfport, Hattiesburg, Jackson, and Mobile.

Along with SBA, Small Business Development Centers and SCORE counselors have a specially-equipped RV donated by Microsoft for the purposes of providing instant, electronic registration. Registration is specifically for small business owners in the affected areas who are currently registered in the Central Contractor Registry and who provide primary contact information including a description of their business, its capabilities, and keywords to describe products/services. With this information entered into the registration database, the Business Matchmaking team will coordinate on-going connections between small businesses and procurement officials from Federal, state and local government agencies, prime contractors and major corporations involved in the recovery and rebuilding effort.

As a last note - SBA is also working to assist our partners at the Small Business Development Centers (SBDC) in the region. We have encouraged them to apply for additional funding through the Portability Grants that you established, Chair Snowe. This will help them to pay for the additional counseling and outreach costs.

Chair Snowe, I appreciate the opportunity to testify before you today and discuss the efforts SBA is making to assist the Gulf States in recovering from hurricane Katrina. The Office of Disaster Assistance has been working seven days, non-stop and SBA's other offices have been supporting them as well. We share your sense of urgency in getting relief to those affected and SBA will do everything it can within its mandate to deliver that aid. I look forward to answering any questions that you might have.