

**Testimony of Walter Isaacson, Vice Chairman
Louisiana Recovery Authority**

Madam Chairwoman and distinguished members of the committee,

Thank you for the invitation to speak on behalf of my native state, Louisiana. My name is Walter Isaacson, and I serve as the vice chairman of the Louisiana Recovery Authority, which was created by Governor Kathleen Babineaux Blanco to be the planning and coordinating body that will assist in implementing the Governor's vision for the recovery of Louisiana. The authority will identify and prioritize the short- and long-term needs of the recovery.

I would like to start by thanking the Administration for extending the SBA Disaster Loan deadline last week. It's important that these programs remain in place as long as possible for our struggling businesses to have access to loan financing.

I would also like to thank Hector Barreto for taking such an interest and coming down to Louisiana last week. When I was in Plaquemines Parish right before his arrival, people there were thrilled that he was coming personally to get things moving.

Also, I want to mention the support of Al Hubbard at the White House. When we visited him there two weeks ago, he promised to monitor the SBA loan-making progress on a daily basis. That type of engagement is certainly needed, and appreciated, since the SBA has thus far not been able to process or make the loans that could help in this critical situation.

On behalf of the LRA Board, I would like to commend Chairwoman Snowe, Senators Kerry, Landrieu, Vitter and other members of the committee for pushing to support Louisiana's small businesses with S.1807. We would ask that the Administration, House, and Senate move quickly to a final version of that legislation, which would provide financing and changes I will describe in my remarks.

Right after the hurricane, Louisiana and its delegation tabled what amounted to a wish list of everything that would be needed to get the state back on its feet. Many people in Washington rightly pointed out that the state should actually set some hardnosed priorities and also should show what it was doing for itself. That was good advice, and we are now following it.

The LRA voted an established eight priorities. There was only one – proper levees and coastal restoration – that ranked higher than what we are here to talk about today. Right up there with it, on the top of our list of priorities, is to help small businesses with expedited loans, bridge loans, and necessary grants.

In other words, what you do in this committee is of utmost importance to us. You realize, like we do, that if small businesses can come back, Louisiana and the nation will both benefit. We are not asking for relief or pure charity but for help in rebuilding businesses so our folks can go back to work and create a stronger economy.

Background:

- **FEMA declared 37 parishes (counties) as major disaster areas (that is, eligible for Individual Assistance coverage) after Hurricanes Katrina and Rita. Of these 37 parishes, 13 are considered severely impacted. In these 13 parishes, there were approximately 81,000 businesses prior to the storm, which represents 41% of all the businesses in the state.**
- **Of the nearly 81,000 businesses, 68,000 had less than \$5 million in annual sales. These aren't deep pocketed, multi-millionaires with endless resources. They are family businesses.**

Louisiana's Action:

- **Governor Blanco & LED launched the Louisiana Bridge Loan Program on October 17th to get "Life-Line Funds" to small businesses**
 - **The Bridge Loan Program has been funded by the reallocation of the State's \$10 million Rapid Response Fund.**
 - **The loans are interest-free for 180 days and range from \$5,000 to \$25,000 per small business.**
 - **A partnership between 20 regional banks and the LA Public Facilities Authority under the trusteeship of JP Morgan administers the program.**
- **The State's \$10 million is not enough to meet the needs:**
 - **Louisiana allocated the initial funds into four pools, and by the end of the first week, there were no funds left for the Rita impacted area.**

- In just three weeks (between October 17th and November 3rd), 467 applications were approved totaling \$8.8 million.
- We have additional valid applications, but remaining funding is not enough to meet those needs.
- We conservatively estimate a need for 8,000 more of these bridge loans during the entire recovery process.

SBA Disaster Loans Aren't Working:

- We need our small businesses to return to the affected parishes and restart operations, so jobs will be available and our families can move home.
- When hurricane damaged businesses seek assistance, the only programs that exist to help them recover are the SBA Disaster Loans.
- We created the state's Bridge Loan program with an awareness that SBA loans in general are not processed quickly.
- However, given their importance, it's devastating that approvals of SBA Disaster Loans applications have been so extremely slow. Further, the rejection rates appear alarmingly high.
- The LRA requested input from Governor Blanco and Louisiana Economic Development Secretary Mike Olivier. Since Katrina (just over two months ago) the SBA – by its own reporting as of Nov. 3rd – has received 11,378 business loan applications for physical infrastructure investments from Louisiana businesses, but has only approved 135 loans – 1%.

- For the Economic Injury Disaster Loans, which can provide working capital to businesses, only 1,257 applications have been received, with 141 applications having been approved.
- We're aware the SBA is asking for retired bankers and CPAs to come to work for the SBA on contract while they process the record amount of disaster loans they have received. This should help.
- As possibly a faster and more community driven alternative, the LRA Board has also suggested that the SBA allow local banks to assist with the evaluation, approval, and loan issuance process, similar to the way Louisiana handled its Bridge Loan Program.
- As the SBA Administrator Hector Barreto reflected to LRA Director Andy Kopplin at a recent Back to Business seminar in Plaquemines Parish, SBA disaster loans are not built to address immediate cash needs of struggling companies and, indeed, are far from adequate to meet the current challenge faced by Louisiana's businesses. Administrator Barreto commented that there's a tremendous amount of need and the SBA programs can truly only address a small portion of the problem.

Four ways to save Louisiana's businesses and spur economic recovery:

Priority 1: Allocate \$200 million for bridge loans to continue the existing Louisiana Bridge Loan Program.

- The state does not need a full grant in this amount, but we do need a guaranty that will cover the cost of the interest and any potential losses.

- The history of Florida in their bridge loan program reflects that almost 90% of the bridge loans made to businesses impacted after multiple hurricanes were paid back.

Priority 2: Direct the SBA to expedite loan processing.

- As described above, we need to dramatically improve the pace of SBA Business and Economic Injury Disaster Loan approvals and seek ways for immediate loan approvals to occur within a week or less to advance capital to applying companies – possibly on the same criteria as the bridge loans.

Priority 3: Provide a significant business recovery fund that parallels the grant program provided to Lower Manhattan businesses after 9/11.

- New York received \$2.7 billion for a business recovery grant program after 9/11. The 9/11 economic recovery programs included small business recovery grants similar to business interruption insurance, large business retention grants, technical assistance programs and worker training programs.
- New York officials have stated that, more than the tax credits and bonds, these grant funds were the most important aspect of their economic recovery efforts.
- Like the 9/11 program, our most devastated communities need radical initiatives to assist with their long-term economic recovery. The state is seeking the

same treatment as Congress recognized was critical for New York, but which must be applied to a much larger region and business population.

- The World Trade Center attacks affected a 16-acre area. After Katrina, 960 square miles in Louisiana alone was impacted. 9/11 caused massive disruption, but the period of disruption did not last nearly as long as what Louisiana's devastated parishes will suffer. The size of our disaster is both larger in size and will be longer in duration than that experienced by lower Manhattan.
- The \$2.7 billion in economic recovery funds were appropriated through HUD three months (by November 2001) after the 9/11 terror attacks. If Congress is to match the timeline that it delivered for New York's economic recovery, these actions need passage by Thanksgiving.
- We need a long-term program to revive and retain our businesses.

Priority 4: Creation of the Gulf Opportunity Zone, which should include programs that emphasize individuals returning to devastated communities, business investment, and the authorization of tax exempt private activity bonds.

- We want to extend our thanks to the Administration, as well as Congressmen McCrery, Jefferson, and Chairman Thomas and members of the House who have filed legislation to create the Gulf Opportunity Zone.

- **H.R. 4155, creating the Gulf Opportunity Zone, is a great start to meet Louisiana's needs for incentives for reinvestment. It is our hope that Congress will move quickly to enact this legislation.**
- **The LRA and Governor Blanco have asked that this GO Zone also include incentives for individuals to return to the most devastated communities. This could be done with housing investment incentives, income tax holidays, or relocation expense incentives.**
- **The LRA Board has also had discussions with former HUD Secretary Jack Kemp and former Congressman J.C. Watts about proposals for additional changes to the GO Zone bill. We believe these additional suggestions merit consideration by Congress.**
- **The House version of the Zone includes a tax-exempt private activity bond program, which is very important. Louisiana asks that the Senate consider increasing the size of the bond allocation given the size of region requiring reinvestment. These tax-exempt bonds have no cost if they go unused, and have the ability to truly spur reinvestment.**
- **The World Trade Center attacks affected a 16-acre area, which received \$8 billion of Liberty Bonds from Congress – all of which were needed to finance reconstruction of the WTC as well as spur commercial and residential investment. As I mentioned earlier, the size of our hurricane disaster and the duration of the impact on our small businesses is far worse than 9/11.**

The size of the impact will require a larger amount of tax exempt private activity bonds from Congress.

- **We want you to know that Louisiana is focused on getting Louisiana businesses back to business.**
- **Still, every day that passes where we can't do more for these struggling businesses means more businesses are failing and more citizens are left without a job.**
- **We are taking steps toward building a better and stronger economy. The greatest key to our businesses' success is access to capital.**
- **We need the assistance of this committee for loans, grants, and other opportunities that will give our businesses the lifeline they need to survive, thrive, and prosper.**
- **This is why your committee exists – and is so important. And this is why the SBA exists – and is so important. We hope that the people at the SBA will feel the passion we in Louisiana feel and many of you share: that we have been put in the roles we each have today for a purpose, and that purpose is being tested in an urgent by the current emergency. We will be judged – and in the end we will judge ourselves – not by our ability to say no or to delay, but by our ability to bring extraordinary methods and wise creativity to the greatest challenge to small businesses this country has ever faced.**