



**U.S. Small Business Administration
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TESTIMONY of

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**U.S. House of Representatives
Committee on Small Business**

The Calm Before the Storm: Oversight of SBA's Disaster Loan Program

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Good morning Chairman Chabot, Ranking Member Velazquez, and distinguished members of the Committee. Thank you for inviting me to discuss SBA's Disaster Loan Program. SBA appreciates your strong support of the agency's disaster operations and your continued leadership in making our country better equipped to deal with natural and other disasters.

I am James Rivera, the Associate Administrator for the SBA Office of Disaster Assistance (ODA). ODA is responsible for providing affordable, timely and accessible financial assistance following a disaster to businesses of all sizes, private non-profit organizations, homeowners, and renters. This financial assistance is available in the form of low-interest loans, and since SBA's inception in 1953, we have provided 2 million loans for more than \$53 billion dollars.

SBA's Role in Responding to a Disaster:

SBA is not a "first responder" agency even though we are on the ground in the immediate aftermath of a disaster. SBA's primary focus is providing low-interest, long term loans as part of the recovery effort in coordination with other government partners at all levels. As part of an overall effort to assist survivors to get back on their feet, SBA's disaster home loans of up to \$240,000 help local community residents return and rebuild their homes. Moreover, nonprofits and businesses of all sizes are eligible for loans of up to \$2 million dollars.

Additionally, SBA offers Economic Injury Disaster Loans (EIDL) to small businesses, small agricultural cooperatives, and most private non-profit organizations who have suffered economic injury caused by a disaster. These loans provide working capital to a business or organization until normal operations can resume following a disaster.

Preparedness and SBA's Key Improvements to the Disaster Assistance Program:

SBA has made a number of improvements in recent years that have allowed us to better respond to disaster survivors. First, we have streamlined application forms and implemented a redesigned electronic loan application –which has led to a more transparent and efficient application process.

Over the past several years, SBA has seen significant increases in its Electronic Loan Application (ELA) activity. In Fiscal Year 2014, 79 percent of SBA disaster loan applications were submitted online using ELA, which was a substantial increase from previous years – 27 percent in Fiscal Year 2011, 36 percent in Fiscal Year 2012 and 55 percent in Fiscal Year 2013. ELA activity continues to increase in Fiscal Year 2015, currently at 83 percent. The steady increase of ELA activity reflects the improvements made by SBA to streamline its online application and ensure that disaster survivors have access to ELA and program information. SBA's electronic loan application provides disaster survivors with immediate access to the disaster loan application and helps to ensure they have access to much needed disaster funds at the soonest possible time following a declared disaster.

Second, SBA has taken several steps to enhance its communication strategy and improve customer service to disaster survivors. Effective and clear communication to the public about the availability of disaster loans is critical to ensure that disaster survivors have access to funds for repairing and rebuilding homes and businesses at the soonest possible time after a declared disaster.

In 2014, SBA launched a new communications plan referred to as "The Three Step Process" when seeking SBA disaster loan assistance: Step 1) How do you apply for loan; Step 2) How do we verify your property and process your loan; and Step 3) How the loan is closed and funds disbursed. The new strategy ensures that disaster survivors have a clearer understanding of the steps involved when seeking SBA disaster loan assistance.

SBA also made another important improvement in its communication with disaster survivors in Fiscal Year 2014 by increasing direct contacts with potential disaster loan applicants. SBA now calls all

disaster survivors referred by the Federal Emergency Management Agency (FEMA) to SBA within 48 hours and informs them of the availability of disaster loan assistance and the various ways to apply, including: 1) online using SBA's Electronic Loan Application (ELA); 2) in-person at a disaster recovery center; and 3) by mail. SBA supplements initial phone calls with follow up calls, emails and in some cases a letter sent by mail. By increasing the number of direct contacts with potential disaster loan applicants, SBA helps to ensure that disaster survivors are aware of the availability of SBA disaster loan assistance and informed about the various ways to apply for assistance.

Third, SBA has implemented separate home and business loan processing tracks in order to mitigate processing delays in the future. After a disaster, homeowners normally apply for loans faster than small businesses. Typically, small business owners first assess the economic damage to their businesses caused by disrupted supply chains, displaced consumers, structural damage, inventory loss, and a range of other complex factors. As a result, businesses tend to apply for disaster loans later than homeowners and renters. Separate home and business loan processing tracks helps to ensure that business applicants do not face long delays as a result of submitting applications behind a large number of home loan applications which are being processed in the order they were received.

Fourth, in April 2014, SBA implemented a new regulatory that allows for a modified approval process (RAPID) for both home and business loans. In keeping with private lending practices, SBA recognized that applicants with higher credit ratings could generally be processed more quickly. The new RAPID approval process considers the applicant's credit without the need to complete the entire cash flow analysis and was made effective for disasters declared on or after April 25, 2014. Because the RAPID approval process provides an expedited processing channel for home and business loans, it also has the potential to ease the stress on SBA loan processing resources used to process files that require more time to complete.

As part of the regulatory change implementing the new RAPID approval process, SBA also raised the unsecured loan limit from \$14,000 to \$25,000 on home and business physical disaster loans for Presidential (major) disaster declarations, and from \$5,000 to \$25,000 on EIDL loans for all declarations. The increased unsecured loan limit allows SBA to disburse more funds to disaster survivors faster which not only helps homeowners and businesses to jumpstart their rebuilding project, it could also help to speed up the recovery of businesses that offer critical services in communities.

On July 1, 2015, we released *SOP 5038, Disaster Assistance Program*, a complete re-write of our standard operating procedures which brings a "back-to-basics" approach to SBA's loan making processes. The refreshed SOP collects for the first time our efforts made over the last several years to improve the disaster survivor's experience when applying for disaster loan assistance in several meaningful ways, including streamlining processes to help facilitate faster loan processing and disbursements, adding more underwriting flexibility to extend disaster loan assistance to more survivors, and helping business owners and homeowners in communities rebuild and prepare for future disasters. In an effort to improve the overall customer experience for disaster survivors, we have introduced new changes to the process and removed countless redundancies in the new SOP.

Response to Superstorm Sandy

A number of these improvements were made in response to lessons learned as a result of Superstorm Sandy. The effects of the devastation caused by Sandy were far-reaching. SBA approved more than \$2.4 billion in disaster loans to help nearly 37,000 homeowners, renters, businesses and non-profit organizations recover and rebuild.

As reflected in SBA's Disaster Preparedness and Response Plan, ODA currently maintains 1,750 workstations in the Fort Worth processing and disbursement center and 350 more surge workstations in

our Sacramento disaster center. During Sandy, we not only used the Ft. Worth location and our Sacramento surge space, but also expanded the loan processing footprint to include 50 workstations at the Buffalo Call Center. At the height of the response to Sandy, we had 2,451 employees engaged in disaster response. Additionally, SBA responded to the needs of residents and business owners by deploying 695 SBA disaster assistance workers and field inspectors to staff 248 Disaster Recovery Centers located throughout the East Coast. At these centers, SBA representatives provided one-on-one service to disaster survivors and personally met with disaster survivors to answer questions, explain SBA's disaster loan program and help complete disaster loan applications and close disaster loans. As such, during Sandy, SBA had more than 152,700 contacts in the field.

Superstorm Sandy disaster survivors in New York, New Jersey, Connecticut, Rhode Island, and Maryland – all of which received Presidential Disaster Declarations – were able to apply for home and business disaster loans online or in person at any of the Disaster Recovery Centers throughout the region. Disaster survivors could also apply for business disaster loans at any of the 49 Business Recovery Centers (BRCs) run by SBA with additional assistance from local resource partners such as SBDCs, SCORE, and Women's Business Centers. Additionally, North Carolina Virginia, West Virginia, and Puerto Rico received SBA Administrative Disaster Declarations, making affected homeowners, renters, and businesses eligible for SBA disaster assistance.

Many disaster survivors do not have easy access to television, radio or the internet. To address these situations, SBA has a telephone hotline, which also provides language translation services. For Superstorm Sandy, our Disaster Customer Service Call Center in Buffalo, New York, responded to over 212,200 calls with minimal wait times.

In closing, I appreciate the opportunity to update this Committee on SBA's disaster recovery effort for Superstorm Sandy and recent improvements to the Disaster Loan Program. We firmly believe that the reforms we have instituted have enabled us to be prepared to efficiently and effectively respond to the needs of our nation's disaster survivors. I look forward to answering any questions. Thank you.