

# Trends and Analysis of SBA Disaster Loan Program

1992 - 2006



*Congress of the United States  
House of Representatives*

Report by the House Small Business Committee  
Democratic Staff  
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## **Introduction**

Over the past few decades, the United States has been hit by a number of disasters, all of which have been followed by a massive level of devastation – particularly brought on by hurricanes. Hurricanes leave a trail of destruction behind, often times depriving communities of their foundations – businesses, homes, and in worst cases – residents. These massive storms force communities, families and businesses to start over and rebuild their lives.

Last year, this country was struck by a series of damaging hurricanes – one which was among the worst to ever touch down on American soil. Over the past six months, small businesses and home owners in the Gulf Coast region have been struggling to make a full recovery and rebuild their livelihood. In order for communities to properly reconstruct following any disaster, immediate and adequate disaster assistance must be provided.

It has been estimated that over 40 percent of businesses that are damaged during a disaster go out of business within two years because of their inability to survive the long term affects.<sup>1</sup> The Small Business Administration’s (SBA) disaster loan program was implemented with the intention of providing low interest loans and working capital to businesses and homeowners that had been devastated by disaster.

SBA’s disaster loan program fills a unique role by providing much needed financial assistance for long term rebuilding and repair of damaged property. Two types of assistance are offered through the program – the economic injury disaster loans (EIDL) and the physical disaster loans. The EIDL loans are used for loss of inventory, to assist in paying employee salaries, and help cover costs associated with the economic downfalls surrounding disasters. The physical loan, which is more widely-used, is an option available to small businesses and homeowners that received direct damage to their property as a result of the storm. Disaster loan applicants are not required to have full collateral to qualify for a loan, but must be able to show the ability to repay. The law allows for interest rates of 4 percent on business loans and 2.68 percent on home loans for terms up to a maximum of 30 years in order for applicants to make payments on their disaster loans.

Over the past few decades, the disaster loan program has grown important as hurricanes rapidly increased their presence right here in the U.S. The 2005 hurricanes that touched down in the Gulf Coast region left behind an unprecedented impact, damaging communities throughout Mississippi, Louisiana and Alabama. However, the response has left thousands of businesses and homeowners in need.

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<sup>1</sup> Robert Alcorn, “Computing the Cost of Downtime – Building a Business Case for Disaster Recovery,” nFrame, <http://www.nframe.com/PDF/ComputingtheCostsofDowntime.pdf>.

Despite testimony from SBA to turn applications around in days, small businesses and homeowners have been forced to wait lengths of three to six months to hear back from the agency. With the extremely high decline rates, and delays – Gulf Coast small businesses and homeowners have had to look to alternative ways of securing assistance, or in the worst case scenario deciding whether or not to completely shut down their businesses altogether. Nearly six months after Hurricanes Katrina, Rita and Wilma hit – the agency has declined 65 percent of loans, and has a backlog of roughly 60,000 applications.

A number of rationales have been given as to why the response for Hurricane Katrina has taken so long. From the significant impact of Hurricane Katrina, the scope of damage, the high number of low income applicants, and the hardships in conducting on-site inspections, among others – SBA has provided a myriad of allowances for the inadequate response.

At a time when there is a significant level of uncertainty surrounding disaster assistance for the Gulf Coast region, this report evaluates the administration's response for the thousands of small businesses that reside in Louisiana, Mississippi, Alabama and Florida in context of those that have taken place over the past three administrations – the G.H. Bush administration, Clinton administration and G.W. Bush administration. The analysis compares the current response to a number of major hurricanes that have hit similar demographic and geographic regions throughout the United States over the past 15 years. The report also provides insight into the developing trends that have been seen in the disaster loan program over the past decade, including disbursement rates, workforce training, and loan approval/decline rates.

The analysis hopes to shed light on the reasoning behind the high decline rates and the long delays that have inundated the disaster loan response for the Gulf Coast region. It is vital that these issues be addressed, which have resulted in lower approval rates and ultimately less assistance to allow small businesses and homeowners to make a full recovery.

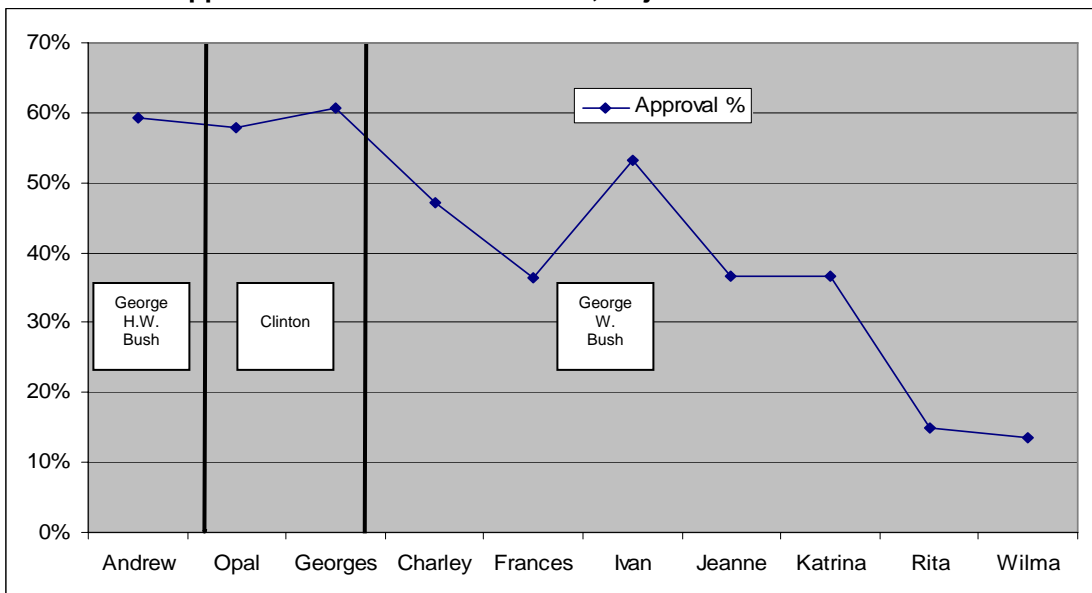
## **Historical Analysis**

The Small Business Administration (SBA) has responded to hundreds of natural disasters over the past fifteen years, including several major hurricanes. Among these are the three major 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 20<sup>th</sup> century); Hurricane Opal (1995; which devastated parts of Florida and Alabama); and Hurricane Andrew (1992; which is the second most costliest hurricane after Hurricane Katrina). In response to these hurricanes, SBA served as the primary source of financing for affected businesses and homeowners.

Traditionally, SBA's Disaster Assistance Program has been operated in a non-partisan manner that has produced consistent results, as measured by loan approval rates. While similar levels of assistance were provided during the administrations of George H.W. Bush and Clinton, the administration of George W. Bush has provide a lower level of response to individuals, homeowners, and businesses adversely affected by major natural disasters (see Chart 1).

The agency's response to these major events has been far from uniform, indicating instead a trend that shows the agency is approving fewer loans as a percentage of applications. During the administration of George W. Bush, SBA has approved on average 33 percent of disaster applications, a 44 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.

**Chart 1: SBA Approval Rate for Disaster Loans, Major Hurricanes<sup>2</sup>**



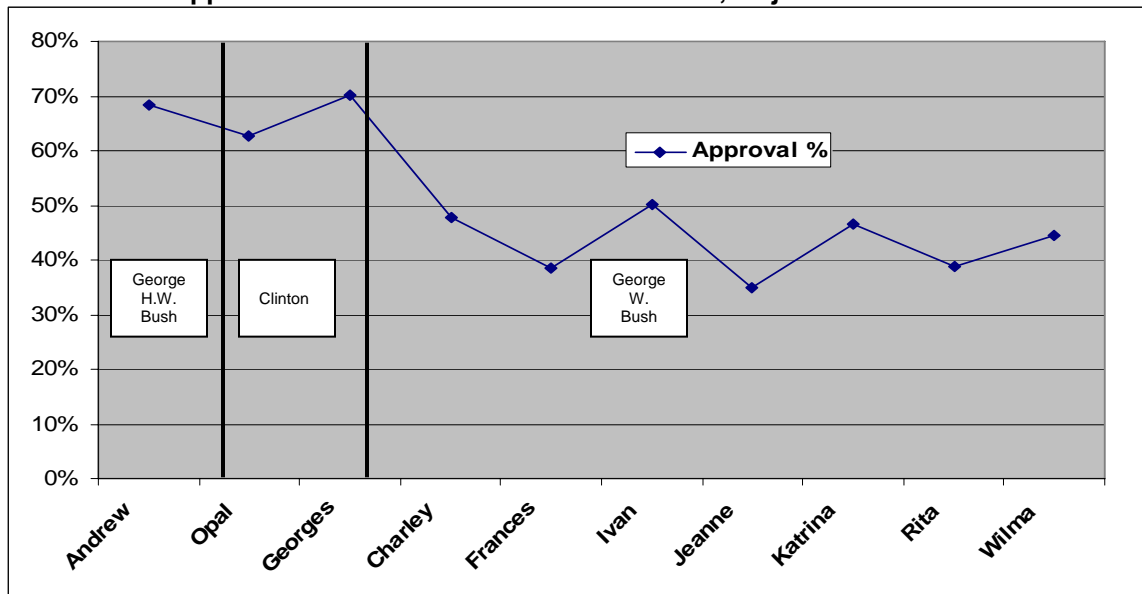
<sup>2</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 9, 2006.

### *Business Loan Approval Rates*

In response to Hurricane Andrew – another disaster in which the federal government was criticized for a slow response – SBA under President George H.W. Bush approved 68 percent of business loan applications (see Chart 2). Hurricane Andrew is a notable comparison to Hurricane Katrina as its scope of urban devastation was severe and it remains one of only three Category 5 hurricanes to make landfall in the United States. This hurricane caused \$45 billion in damage – mainly to southern Miami-Dade County – killing 28 people, destroying nearly 130,000 homes and 10,000 businesses and leaving approximately 350,000 people temporarily homeless.

During the mid to late 1990s, SBA under President Clinton continued to approve more than 60 percent of business disaster loan applications. The agency played a major role in responding to the widespread devastation caused by Hurricane Opal (1995), which affected the panhandle of Florida and nearly all of Alabama, and Hurricane Georges (1998) that broadly impacted the Gulf Region and marked the first occasion that the Louisiana Superdome was used as an evacuation center. For hurricanes Opal and Georges, the SBA under President Clinton approved 63 and 70 percent of business loan applications respectively.

**Chart 2: SBA Approval Rate for Business Disaster Loans, Major Hurricanes<sup>3</sup>**



However, since George W. Bush took office, SBA’s role in responding to disasters has faded substantially. Beginning with the four hurricanes that struck Florida during 2004, SBA has approved 50 percent or less of business loan applications for disaster assistance. Hurricane Charley – the strongest hurricane to strike Florida since Andrew – hit the western Gulf coast of Florida. It produced \$15 billion in damage and severely damaged the agricultural industry. SBA approved 48 percent of applications for disaster business loans after Charley – a stark contrast to the 70 percent approval rate of Hurricane Georges.

<sup>3</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 9, 2006.

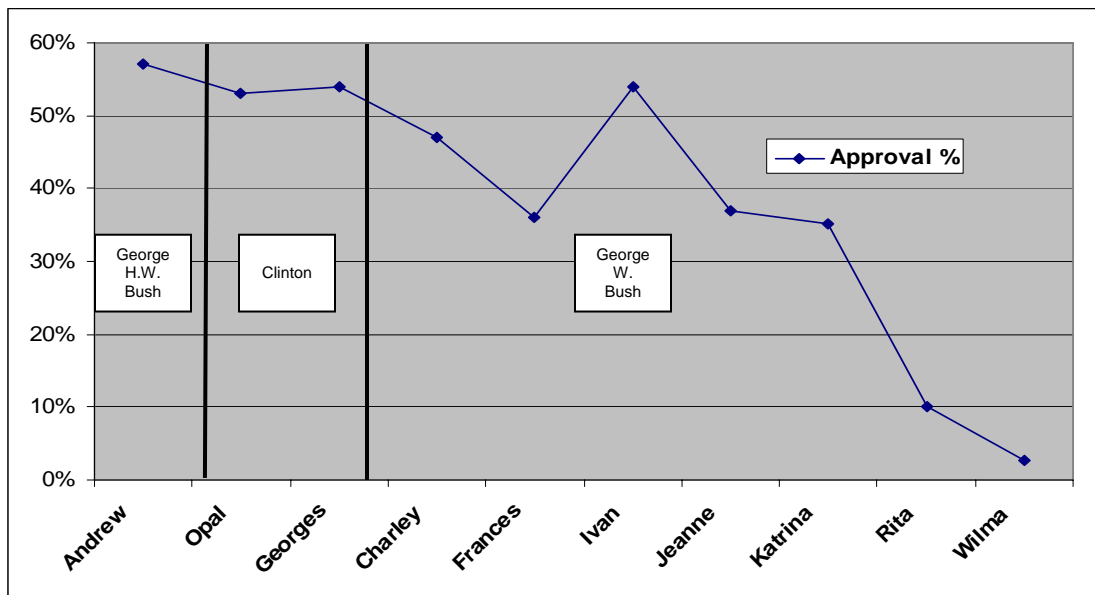
Hurricane Frances, Ivan, and Jeanne all followed Hurricane Charley during the 2004 hurricane season. Respectively, the SBA approved 39 percent, 50 percent, and 35 percent of business loan applications for disaster assistance, continuing the declining trend since President George W. Bush took office. Frances affected central Florida and the panhandle and resulted in nearly \$10 billion in destruction, including significant damage to the Kennedy Space Center. Ivan caused extensive damage to Alabama and Florida, leaving \$13 billion in damage. Finally, Jeanne struck central Florida, resulting in \$7 billion in damage and leaving many without power for the third time in a month.

*Home Loan Approval Rates*

In addition to making business disaster loans, SBA also makes loans to homeowners and renters. This authority plays an essential role in business recovery by enabling the resident labor force to make repairs and rebuild their homes – instead of abandoning the local area and leaving businesses without the employees and resources needed to restart their companies.

Similar to the historical trends seen in SBA’s disaster lending to businesses, the agency continues to approve a lower percentage of home applications for disaster assistance (see Chart 3) during the current Bush administration than under previous administrations. This decline not only affects the homeowners themselves, but also the business community that is dependent on the local labor force.

**Chart 3: SBA Approval Rate for Home Disaster Loans, Major Hurricanes<sup>4</sup>**



<sup>4</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 9, 2006.

For major hurricanes prior to 2004, the SBA approval rate for home loans approached or exceeded 55 percent. For the 2004 and 2005 hurricanes, the agency has only approved in excess of 50 percent of home applications for one hurricane (Ivan) and typically approves less than 40 percent of applications (Frances, Jeanne, Katrina, Rita, and Wilma). Many of the 2004 and 2005 hurricanes share similar geographic and demographic traits with the pre-2004 hurricanes, which make these declines even more troubling.

**Analysis of SBA’s Response to Recent Major Hurricanes<sup>5</sup>**

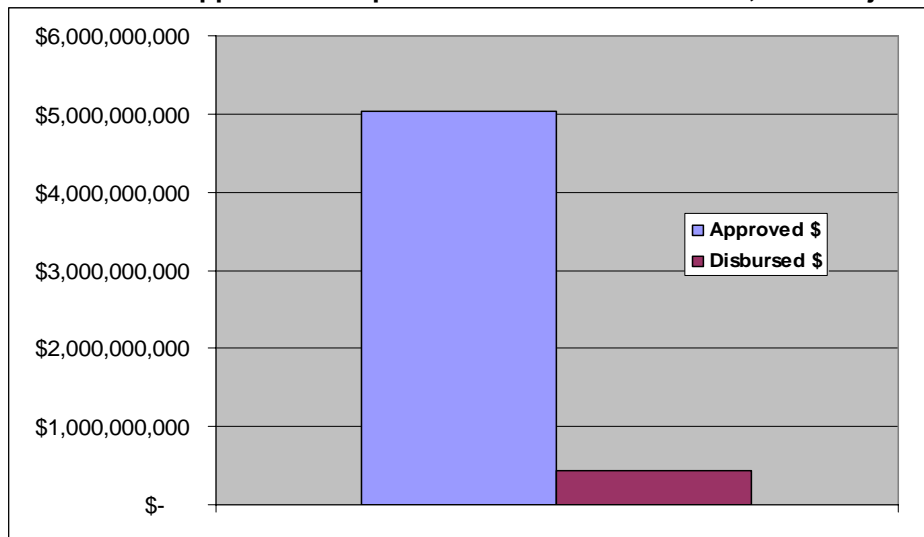
While historical analysis demonstrates the current administration’s decision to lessen the SBA’s role in response to disasters, an assessment of the agency’s on-going performance provides further evidence of the agency’s declining performance.

*Analysis of Approval and Disbursements, Major 2005 Hurricanes*

Loan approvals represent only one measure in determining the impact SBA is having in response to the major 2005 hurricanes (Katrina, Rita, and Wilma). 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 Gulf economy – is loan disbursements. Disbursements reflect the amount of financial resources that businesses or homeowners have actually received from the SBA. The agency has approved nearly more than \$5 billion in loans for the major 2005 hurricanes, but has disbursed only \$440 million – or less than 10 percent (see Chart 4).

**Chart 4: Loan Approvals compared to Loans Disbursement, 2005 Major Hurricanes<sup>6</sup>**



<sup>5</sup> 2005 recent major hurricanes include Katrina (August 29, 2005), Rita (September 24, 2005), and Wilma (October 24<sup>th</sup>).

<sup>6</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 25, 2006.

*Analysis of SBA Productivity, 2004 and 2005*

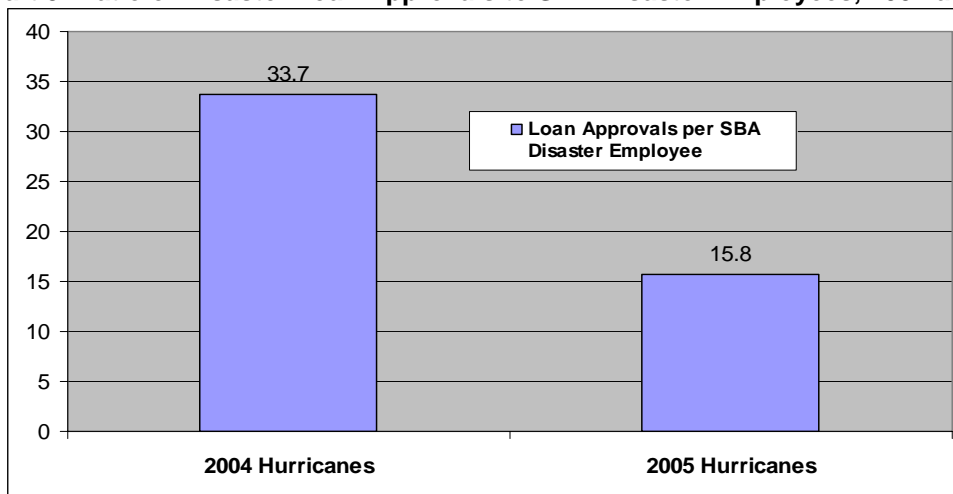
SBA relies on a core group of permanent staff to manage the program’s day-to-day operations. During times of peak demand, the agency supplements its staff with a cadre of temporary employees. Unfortunately, SBA has improperly projected its staffing needs for recent hurricanes. Contributing to SBA’s staffing shortfalls is its recent workforce transformation that has thinned its disaster program staff. This has resulted in a decline in the expertise and knowledge of SBA’s core disaster program staff.

As a result of the reduced disaster staff and insufficient planning, SBA hired a substantial number of new staff in a short period of time. Without plans to assimilate and properly train these new staff, SBA faced challenges in efficiently using its newly expanded workforce. As a result, the agency’s productivity – or loans approved per employee – has fallen as well.

In response to the four major 2004 Florida hurricanes, SBA had 1,500 disaster employees and approved more than 50,000 loans for disaster assistance.<sup>7</sup> For the 2005 major hurricanes, the agency has tripled the number of disaster employees to 4,500, but has approved only 40 percent more applications.<sup>8</sup> This decline in productivity can only partially be explained by the scope of the 2005 hurricanes – as SBA recently implemented what it has called a more efficient and productive disaster loan processing system.

The ratio of loan approvals to employees demonstrates SBA’s declining loan approval productivity (see Chart 5). In 2004, 33.7 loans were approved for each SBA employee; in 2005, this ratio has plummeted to 15.8 loan approvals per employee. This downward trend shows that greater resource expenditure at SBA has not translated into an equal increase in assistance to businesses and homeowners affected by the major 2005 hurricanes.

**Chart 5: Ratio of Disaster Loan Approvals to SBA Disaster Employees, 2004 and 2005<sup>9</sup>**



<sup>7</sup> Source of SBA employment numbers is SBA press release dated November 15, 2004.

<sup>8</sup> Source of SBA employment numbers is SBA press release dated March 1, 2006 (4,250 employees in SBA’s Office of Disaster Assistance) and March 6, 2006 Associated Press article citing 250 SBA District Office staff as assigned to assist in response to recent disasters.

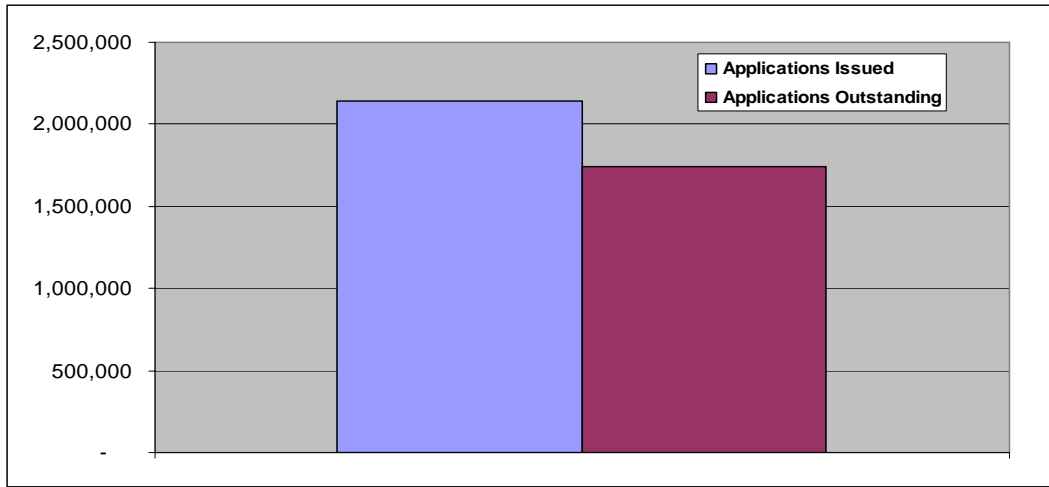
<sup>9</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 25, 2006.



*Analysis of Application Status*

In response to the major 2005 hurricanes, the SBA issued 2,144,248 applications to businesses, homeowners, and individuals seeking financial assistance from SBA<sup>10</sup>. Of these applications, only 403,582 applications have been submitted to the agency for processing. The balance of the applications – 1,740,666 or 81 percent – remains outstanding (see Chart 6).

**Chart 6: Applications Issued and Applications Outstanding, 2005 Major Hurricanes**<sup>11</sup>



Contributing to the high percentage of outstanding applications has been the massive scope and scale of the 2005 hurricanes. Many businesses and homeowners have delayed applying for SBA assistance as they continue to evaluate the constantly changing economic situation in the affected areas. In addition, SBA’s response to the recent hurricanes has generated substantial negative publicity, leading many to forgo applying to an agency beset with long processing delays and high decline rates. Irrespective of the substantial number of outstanding applications, SBA has set an April 10 application deadline for physical injury loans, which are the main source of assistance for homes and businesses with physical damage. This has the effect of leaving many potential applicants without the ability to secure federal financial assistance.

<sup>10</sup> Application data is as of February 25, 2006.

<sup>11</sup> Data for hurricanes Katrina, Rita, and Wilma is as of February 25, 2006.

## **Conclusion**

Federal officials have contended that the Bush administration's poor performance in response to the 2005 hurricane season was due to the unprecedented nature of the storms themselves. While it is true that Hurricanes Katrina, Rita, and Wilma were devastating storms, the administration's poor performance is due to policy changes it adopted, not the magnitude of these recent disasters. The SBA's response to hurricanes during the administration of George W. Bush has been uniform, as evidenced by loan approval rates – and the most recent hurricanes are not statistical anomalies as some may suggest. In fact, the agency's composite approval rate during the 2005 major hurricanes is 35 percent, comparable to the 43 percent average rate achieved during the 2004 hurricane season.<sup>12</sup>

To further reinforce the idea that the recent hurricanes are distinct, many officials have suggested that the demographic profiles of areas impacted by Hurricane Katrina are unique, when this was not the case. Hurricane Andrew, the second costliest hurricane on record, affected Miami-Dade County – a largely urban area. Hurricane Katrina, while much larger in its geographic reach, devastated many urban areas as well, including New Orleans, Louisiana and Gulfport, Mississippi.

What is clear is that loan approval rates have dropped sharply – regardless of the hurricane – since the current Bush administration took office. For major hurricanes occurring in the Clinton and prior Bush administrations, the SBA had approved nearly 60 percent of loan applications. The current administration has an average approval rate of 33 percent for major hurricanes contained in this report – a decline of nearly 45 percent from previous administrations.

Under President George W. Bush, less assistance has been given to individuals, businesses, and homeowners than during previous administrations. As no significant legislative changes have been made to the disaster program in recent years, the reasons for this declining trend appear to be internal to the Bush administration. While no new policy has been announced, the administration has – either consciously or unconsciously – shifted federal disaster response to deny financial assistance at a higher rate than previous administrations.

Previous administrations embraced SBA's role as the federal government's sole source of long-term, low-cost financial assistance to those affected by disasters. During these administrations, financing was made available to all those in need, with a process that recognized the unique needs of these individuals. Unfortunately, this process has been abandoned by the current administration, which now apportions financial assistance to only a select few, rather than serving as the lender-of-last resort for all, as it has historically.

The result of this policy shift is felt by those that need financial assistance the most. Without this assistance, small businesses will be unable to rebuild, hire new employees, and begin anew. Homeowners will be challenged to repair their homes, preventing many from returning to the region and entering the workforce themselves. As a result, the local communities that have come to depend on SBA for economic renewal will instead face a longer road to recovery.

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<sup>12</sup> The composite rate for 2005 major hurricanes is based on a single source of loan data – given that processing is still occurring. When viewed by hurricanes, approval rates are: Katrina – 37 percent; Rita – 15 percent; and Wilma – 13 percent (average rate of 22 percent). The 2004 average hurricane rate is simply the average of approval rates for Hurricanes Charley, Frances, Jeanne, and Ivan.