

GAO

Report to the Chairwoman, Committee  
on Small Business, House of  
Representatives

July 2009

# SMALL BUSINESS ADMINISTRATION

Additional Steps  
Should Be Taken to  
Address Reforms to  
the Disaster Loan  
Program and Improve  
the Application  
Process for Future  
Disasters





Highlights of [GAO-09-755](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

### Why GAO Did This Study

After the Small Business Administration (SBA) was widely criticized for its performance following the 2005 Gulf Coast hurricanes, the agency took steps to reform the Disaster Loan Program and Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008 (Act). GAO was asked to determine (1) the extent to which SBA addressed the Act's requirements, and (2) how SBA's response to major disasters in 2008 aligned with key components of its June 2007 Disaster Recovery Plan (DRP). GAO reviewed the Act, as well as SBA information on requirements addressed and steps taken, including the DRP, various reports to Congress, and policy memoranda. GAO also conducted site visits to areas affected by major 2008 disasters, reviewed SBA's customer satisfaction survey, and obtained the opinions of relevant stakeholders.

### What GAO Recommends

SBA should meet the Act's region-specific marketing and outreach requirements; complete its annual report to Congress; issue an updated DRP; develop an implementation plan for remaining requirements; and develop procedures to further improve the application process. In comments on a draft of this report, SBA generally agreed with the recommendations.

View [GAO-09-755](#) or [key components](#). For more information, contact William Shear at (202) 512-8678 or [ShearW@gao.gov](mailto:ShearW@gao.gov).

## SMALL BUSINESS ADMINISTRATION

### Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters

#### What GAO Found

As of June 2009, SBA met 13 of 26 requirements of the Act, partially addressed 8, and did not take action on 5 which are not applicable at this time (see table). SBA officials told GAO the agency has not yet completely addressed some provisions that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs. For two requirements that will involve private lenders, SBA plans to implement pilots before finalizing regulations. SBA has not yet addressed the Act's requirements for region-specific marketing and outreach and ensured that Disaster Loan Program information is readily available to regional entities, such as Small Business Development Centers (SBDC). By doing so, SBA could leverage the efforts and capacity of local resources and emergency management groups, and ensure that it and they will be better prepared for future disasters. Also, as of June 2009, SBA had not met deadlines to issue an annual report to Congress or an updated DRP. Failure to do so can lead to a lack of transparency on the agency's progress in reforming the program and limit its ability to adequately prepare for and respond to disasters. Furthermore, SBA did not have an implementation plan for addressing the remaining requirements.

#### Status of SBA's Efforts to Address Requirements of the Act

Section	Status	Section	Status
Economic injury disaster loans to nonprofits	●	Disaster planning specialist	●
Coordination with Federal Emergency Management Agency	◐	Employees and disaster cadre	●
Public awareness and marketing and outreach	◐	Annual disaster response plan	◐
Consistency of procedures and regulations	●	Sufficient office space	●
Increased loan amount without collateral	●	Major source of employment change	●
Processing disaster loans and Internal Revenue Service coordination	◐	Increased disaster loan amount	●
Information tracking and follow-up system	●	Small business bonding threshold	N/A
Increased deferment period	N/A	Eligibility for additional disaster assistance	N/A
Disaster processing redundancy	●	Additional economic injury disaster loans	N/A
Net earnings clause	●	Private disaster loans	◐
Loans after ice storms and blizzards	●	Immediate disaster assistance program	◐
Disaster response plan and simulations	●	Expedited disaster assistance program	◐
		Gulf Coast disaster loan refinancing program	N/A
		Reports to Congress on disaster assistance	◐

● Addressed (initial or ongoing)    ◐ Partially addressed  
Source: GAO.

SBA's initial response after the 2008 Midwest floods and Hurricane Ike aligned with certain components of its initial DRP, such as using technology and outreach efforts to ensure timely assistance. The individuals GAO interviewed and results from SBA's 2008 Disaster Loan Program Customer Satisfaction Survey provided some positive feedback about SBA's performance following recent disasters. However, interviewees and survey results indicated areas for improvement; in particular, both indicated that application paperwork was burdensome and that the application process needed improvement. SBA officials told GAO that they have been taking steps to improve the application process, but did not provide documentation of such efforts. As a result, it did not appear to have any formal process for identifying problems in the application process and making needed improvements.

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## Abbreviations

ACSI	American Customer Satisfaction Index
Act	Small Business Disaster Response and Loan Improvements Act of 2008
ARRA	American Recovery and Reinvestment Act of 2009
BRC	Business Recovery Center
CFI	Claes Fornell International
DCMS	Disaster Credit Management System
DRP	Disaster Recovery Plan
DRC	Disaster Recovery Center
EODSPO	Executive Office of Disaster Strategic Planning and Operations
FEMA	Federal Emergency Management Agency
IRS	Internal Revenue Service
ODA	Office of Disaster Assistance
SBA	Small Business Administration
SBDC	Small Business Development Center
SOP	Standard Operating Procedures

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United States Government Accountability Office  
Washington, DC 20548

July 29, 2009

The Honorable Nydia M. Velazquez  
Chairwoman  
Committee on Small Business  
House of Representatives

Dear Madam Chairwoman:

While the Small Business Administration (SBA) is known primarily for its financial support of small businesses, the agency also plays a critical role in assisting the victims of natural and other declared disasters. Since the agency's inception in 1953, SBA has approved more than \$46 billion in disaster loans for homeowners, businesses, and nonprofit organizations. SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, businesses of all sizes, and nonprofits recover from disasters such as earthquakes, hurricanes, and terrorist attacks. After the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), SBA faced an unprecedented demand for disaster loans, while also being confronted with a significant backlog of applications; therefore, hundreds of thousands of loans were not disbursed in a timely way. Many criticized SBA for what was perceived to be a slow and confusing response to the disasters. As a result, Congress and SBA agreed that the program needed significant improvements. Since then, SBA has taken several steps to reform its Disaster Loan Program, which include developing a Disaster Recovery Plan (DRP), creating an online loan application, and increasing the capacity of its Disaster Credit Management System (DCMS). In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act to expand steps taken by SBA and require new measures to ensure that SBA is prepared for future catastrophic disasters.<sup>1</sup>

In response to your request, this report examines reforms made to SBA's Disaster Loan Program and the impact those reforms had following recent disasters. Specifically, this report discusses (1) the extent to which SBA addressed the requirements of the Small Business Disaster Response and Loan Improvements Act of 2008 (Act), and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 DRP.

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<sup>1</sup>Pub. L. No. 110-246, subtitle B, 122 Stat. 2168 (2008).

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To determine the extent to which SBA addressed the requirements of the Act, we identified and analyzed the requirements and related statutory deadlines; obtained information about SBA's completed, current, and planned reform efforts; reviewed documents and progress reports to determine if requirements had been addressed and deadlines were met; interviewed officials and obtained information on what, if any, challenges exist that may affect SBA's ability to implement certain requirements; and interviewed officials to obtain information about next steps and resources that the agency identified as needed to address any remaining requirements. To assess how SBA's response following the major disasters of 2008 aligned with key components of its DRP, we conducted site visits in Iowa and Texas, and obtained information on how SBA's performance in the aftermath of the 2008 Midwest floods and Hurricane Ike was viewed. We interviewed SBA and Small Business Development Center (SBDC) officials, state and local officials, and representatives of local Chambers of Commerce, economic development organizations, and affected small business owners about what worked well and suggested improvements to SBA's disaster loan processes. We also reviewed results from a survey of SBA loan applicants on their satisfaction with SBA's Disaster Loan Program in 2008. Finally, we compared data for the 2008 disasters with agency performance goals. Appendix I contains a detailed description of our scope and methodology.

We conducted this performance audit from October 2008 through July 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Results in Brief

SBA fully addressed requirements for 13 of 26 provisions of the Act, as well as some deadlines associated with them; partially addressed 8 provisions; and took no action on 5 that are not applicable at this time. For the 13 provisions SBA fully addressed by June 2009, the agency's actions included implementing requirements to make disaster loans to nonprofit organizations, increasing loan amounts from \$10,000 to \$14,000 without requiring collateral, and establishing a second facility to process disaster loans in case the primary facility is unavailable. While SBA has taken some steps toward implementing the Act, the agency still needs to take additional steps to completely address 8 provisions. According to SBA officials, the agency has not yet completely addressed some provisions

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that require new regulations because to do so, the agency must make extensive changes to current programs or implement new programs—such as the Immediate and Expedited Disaster Assistance Programs—to satisfy requirements of the Act. Moreover, as required by the Act, SBA has not issued an update of its comprehensive DRP. SBA also has not fully addressed the requirement for providing region-specific marketing and outreach and ensuring the information is made available to SBDCs and other local resources—as required by another provision in the Act. According to SBA and our review, 5 provisions require no action by SBA at this time because they are discretionary or establish the need for additional appropriations to satisfy the Act’s requirements. Finally, 9 provisions set forth in the Act are subject to deadlines, which the agency has had limited success in meeting. As of June 2009, SBA had met some deadlines for 4 provisions, missed one deadline by 27 days, and missed deadlines for 4 remaining provisions by many months. SBA officials offered several reasons for missing deadlines. Specifically, the officials said they needed time to issue new regulations and create new programs—and pilot them—before making final decisions about implementation. For example, the Immediate and Expedited Disaster Assistance Programs are part of a pilot, because SBA sees a need to test how private lenders would administer such programs if implemented. Furthermore, as of June 2009, SBA has not issued an annual report on disaster assistance, which was required by November 2008. Though the Act requires that SBA provide annual updates to its comprehensive DRP, SBA has not yet updated its June 2007 plan. The agency also has not developed a plan with expected time frames for addressing the remaining requirements. SBA’s not providing such reports to Congress, as required, can lead to a lack of transparency about the agency’s Disaster Loan Program and its progress and capacity to reform the program, as well as its ability to adequately prepare for and respond to disasters.

SBA’s initial response following the 2008 Midwest floods and Hurricane Ike aligned with major components of its DRP, such as infrastructure, human capital, information technology, and communications and outreach. Additionally, individuals to whom we spoke affected by both disasters considered the agency’s overall performance somewhat positive, but believed the disaster loan process could be improved. In May 2008, floods devastated 85 counties in Iowa (one of several states affected) and in September 2008, Hurricane Ike devastated 50 counties in Texas. SBA and SBDC officials, state and local representatives, private-entity officials, and business owners in Iowa and Texas told us that in the days immediately following the disasters, SBA’s Office of Disaster Assistance staff reported to the affected areas and began providing needed disaster

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assistance. These individuals also said that SBA staff provided outreach and public information about its Disaster Loan Program; distributed application information; assigned knowledgeable customer service representatives to various Disaster and Business Recovery Centers (DRC and BRC); and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help—as outlined in SBA’s DRP. In addition, our review of SBA’s 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents were somewhat satisfied with the assistance SBA provided during other recent disasters. However, both the individuals we interviewed and survey results indicated areas for improvement and opportunities to increase satisfaction with SBA’s disaster loan process. For example, individuals we interviewed and survey responses pointed to concerns about the amount of paperwork required to complete SBA’s disaster loan application and the timeliness of loan disbursements. To address these concerns, the individuals we interviewed suggested several changes to the program, such as eliminating the requirement that applicants provide copies of Internal Revenue Service (IRS) tax records; providing partial disbursements earlier in the process; using bridge loans to help ensure disaster victims receive timely assistance; and involving SBA, SBDCs, and state and local officials in joint pre-planning and disaster preparedness efforts. Though SBA officials told us they have been taking steps to improve the application process, these steps and improvement efforts were not documented. In addition, we found that while SBA conducts its annual survey, the agency does not appear to incorporate this feedback mechanism into its formal efforts to continually improve the application process. Furthermore, SBA does not appear to have policies and procedures in place for improving the application, nor does it appear to have a formal process for identifying problem areas within its program and using this experience to improve the application process for future applicants.

To facilitate SBA’s progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program, we are recommending that the Administrator of SBA (1) develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act and ensure regional entities, such as SBDCs, have this information and other Disaster Loan Program information readily available prior to the likely occurrence of a disaster; (2) complete the first annual report to Congress on disaster assistance and adhere to the time frame for subsequent reports; (3) expeditiously issue an updated DRP that reflects recent changes resulting from the Act’s requirements, as well as SBA’s own reform efforts; (4) develop an implementation plan and report to Congress on the agency’s progress in addressing the requirements of the



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Act, including milestone dates for completing implementation; and (5) develop and implement a process to address identified problems in the disaster loan application process for future applicants.

We provided SBA with a draft of this report for review and comment. In comments provided to us in an email, SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, SBA cited ongoing efforts since 2005 to improve its application process, such as the electronic loan application, and said the agency has plans to continue its improvement efforts and make them an ongoing priority. However, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

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## Background

SBA's Disaster Loan Program, which has been a part of the agency since its inception in 1953, is the primary federal program for funding long-term recovery assistance. SBA's Office of Disaster Assistance (ODA) responds to disasters and administers the program—which provides affordable, timely and accessible financial assistance following a disaster to homeowners, renters, businesses of all sizes, and nonprofit organizations. SBA does not provide disaster grants; rather, this financial assistance generally is available in the form of direct, low-interest loans and is the only SBA program not limited to small businesses.

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## Overview of Disaster Loans and Application and Disbursement Process

A Presidential disaster declaration puts into motion long-term federal recovery programs, such as the Disaster Loan Program, but SBA is not a "first responder" after a disaster. Rather, local government emergency services assume the role of first responders, with help from state and volunteer agencies. For catastrophic disasters, and if a governor requests it, federal resources can be mobilized through the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) for search and rescue, electrical power, food, water, shelter, and other basic human needs. SBA typically responds to a disaster within 3 days by

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sending ODA field staff to the affected area to begin providing public information about SBA's services.

Once a disaster is declared, SBA, by law, is authorized to make two types of disaster loans: (1) physical disaster loans, and (2) economic injury disaster loans. Physical disaster loans are for the permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property.

That is, SBA provides loans to cover repair costs that FEMA or other insurance has not already fully compensated or covered.<sup>2</sup> The loans are intended for repair or replacement of the disaster victim's damaged property to its pre-disaster condition. Interest rates are periodically adjusted and SBA calculates rates after each disaster. By law, the interest rates depend on whether each applicant has credit available elsewhere. If SBA determines the applicant is unable to borrow from non-government sources or does not have sufficient funds, then the applicant is considered to not have credit available elsewhere. SBA offers two levels of interest rates, a low rate for applicants who have no credit available elsewhere and a higher rate for applicants with credit available elsewhere. Economic injury disaster loans provide small businesses, including agricultural cooperatives and private nonprofit organizations, with necessary working capital until normal operations can resume after a disaster. Loan funds are intended to cover operating expenses small businesses could have paid had the disaster not occurred. The interest rates on an economic injury disaster loan cannot exceed 4 percent (see table 1).

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<sup>2</sup>SBA can lend individuals amounts up to \$200,000 for their primary residence and \$40,000 for household goods and personal effects and can lend businesses up to an aggregated \$2 million for physical and economic injury disaster loans, before the individuals or business owners receive their insurance recovery. In these cases, the loan recipient must use the insurance recovery funds to reduce the balance of the SBA disaster loan. Even individuals or business owners who believe they have full insurance coverage are encouraged to apply for an SBA loan because their insurance recovery may turn out to be only partial, or their damage may exceed insurance policy limits.

**Table 1: SBA’s Disaster Loans**

Type	Funds use	Eligibility	Lending limit	Interest Rate <sup>a</sup>
Physical disaster loans	Repair or replace personal residences, individual personal property or real estate to its pre-disaster condition.	<ul style="list-style-type: none"> <li>• Homeowners</li> <li>• Renters</li> <li>• Businesses (all sizes)</li> <li>• Private, nonprofits</li> </ul>	<ul style="list-style-type: none"> <li>• \$200,000 – personal residences</li> <li>• \$40,000 – individual personal property</li> <li>• \$2 million – aggregate for businesses’ and nonprofits’ real estate, inventories, machinery, equipment</li> </ul>	<ul style="list-style-type: none"> <li>• Varies, but generally for those who cannot obtain credit elsewhere, interest is capped at 4 percent; for those who can obtain credit elsewhere, interest is capped at 8 percent</li> </ul>
Economic injury disaster loans	Assist organization through the disaster recovery period and cover operating expenses the business could not pay because of the disaster.	<ul style="list-style-type: none"> <li>• Small businesses</li> <li>• Small agricultural cooperatives</li> <li>• Private nonprofits</li> </ul>	<ul style="list-style-type: none"> <li>• \$2 million aggregate amount</li> </ul>	<ul style="list-style-type: none"> <li>• Capped at 4 percent</li> </ul>

Source: GAO analysis of SBA documents.

<sup>a</sup>Interest rates are periodically adjusted and vary for each disaster.

Immediately following a disaster, SBA public information officers are responsible for providing information and outreach to victims about SBA’s Disaster Loan Program and SBA customer service representatives are available to help home and business owners complete loan applications. However, certain restrictions and guidelines apply to SBA’s Disaster Loan Program. For example, individuals must first register with FEMA and obtain a registration number before SBA can issue an application. SBA has separate applications for home and business loans and offers these applications in both paper and electronic form. Furthermore, SBA only will make a disaster loan if there is reasonable expectation that the loan can be repaid—loan applicants must have a credit history acceptable to SBA and demonstrate their ability to repay all outstanding loans. They must also apply within certain time frames. Typically, loan applications for physical disaster loans must be received by SBA within 60 days from the date of the disaster declaration, while applications for economic injury disaster loans must be received within 9 months.<sup>3</sup> In addition, SBA generally requires collateral for all loans greater than \$14,000, recently increased from \$10,000 pursuant to section 12065 of the Act.

<sup>3</sup>For a catastrophic disaster, application periods can be extended at the state governor’s request.

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Once SBA receives a completed loan application, staff in its Loan Processing and Disbursement Center review eligibility, check credit, and calculate repayment ability. Applicants declined at this stage always receive notification in writing from SBA. The letter provides reasons for the declination and advises the applicant of its reconsideration rights. Applications that are not declined are assigned to an SBA loss verifier, who is responsible for contacting each applicant to make an appointment to verify the physical losses and estimate a dollar value for damaged real estate and personal property. Next, staff underwrite the application and review in greater depth the applicant's credit history, repayment ability, and eligibility. Unless the application is withdrawn, SBA processes each loan application to an approved or declined status.

SBA notifies approved applicants and makes arrangements to execute the loan closing. Before SBA can make any disbursements, the borrower must execute loan closing documents and return them to SBA within 60 days. Upon receipt of the closing documents, SBA issues the first disbursement of the unsecured portion of the loan—up to \$14,000 for physical disaster loans. After SBA has verified that lien requirements on collateral property have been met, it can disburse the additional secured portion of the physical disaster loan based on need or construction progress. Because no physical repairs are associated with economic injury disaster loans, SBA generally makes full disbursement for these loans once collateral and insurance requirements are met. SBA monitors all disbursements to ensure that loan funds are used in accordance with the loan authorization and agreement.

ODA and the newly created Executive Office of Disaster Strategic Planning and Operations (EODSPO), both headquartered in Washington, D.C., are responsible for responding to disasters, coordinating with other disaster recovery entities, and administering the agency's Disaster Loan Program. ODA has four field offices, which are the Customer Service Center located in Buffalo, New York; two disaster Field Operations Centers located in Atlanta, Georgia and Sacramento, California; and a centralized Loan Processing and Disbursement Center located in Fort

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Worth, Texas.<sup>4</sup> ODA also has a Personnel and Administrative Services Center and a DCMS Operations Center in Herndon, Virginia. Organizationally the associate administrator of ODA reports directly to the EODSPO chief; and the EODSPO chief reports to the SBA Administrator. In addition, ODA can utilize SBA district offices, SBDCs, and SCORE (formerly called Service Corps of Retired Executives) for local marketing and outreach efforts.<sup>5</sup>

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## Disaster Planning and SBA's DRP

Among the lessons learned from the 2005 Gulf Coast hurricanes was the need for a more organized, formal, and pre-planned approach for providing SBA services in response to a disaster. Members of Congress found that it was necessary for SBA to develop and implement a written, comprehensive disaster plan.<sup>6</sup> Congress acted to signify the importance of an agency-wide plan that provided guidance and procedures governing preparations for, and response to, declarations of disasters of various dimensions, including catastrophic disasters, by including several related requirements in the Act. Thus, one section of the Act requires that SBA develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance.<sup>7</sup> Our prior work also revealed the need for SBA to conduct comprehensive disaster planning. For example, as we stated in our February 2007 report, SBA did not engage in or complete comprehensive disaster plans before

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<sup>4</sup>The Disaster Field Operations Center-East, in Atlanta, handles field operations and public information activity for disaster declarations in the states east of the Mississippi River, plus Washington, D.C., Minnesota, the U.S. Virgin Islands and Puerto Rico. The Disaster Field Operations Center-West, in Sacramento, handles field operations and public information activity for disaster declarations in all states west of the Mississippi River, Alaska, Hawaii, and the U.S. Pacific Islands (Guam, American Samoa, Marshall Islands, Northern Mariana Islands, and Micronesia).

<sup>5</sup>SCORE is a nonprofit government-chartered corporation and SBA resource partner that focuses on entrepreneur education and training, and the creation, growth, and success of small businesses nationwide.

<sup>6</sup>See S. Rep. No. 110-64, at 5 (2007) (expressing concern over the SBA not having a "proactive, comprehensive disaster response plan in place in August 2005").

<sup>7</sup>According to section 12075, Comprehensive Disaster Recovery Plan, the plan must include a description of the disasters most likely to occur regionally, including (1) an assessment of the disaster; (2) an assessment of the likely demand for SBA assistance; (3) an assessment of SBA's resource needs related to information technology, telecommunications, human resources, and office space; and (4) guidelines on SBA's use of resources and how it intends to coordinate with other agencies.

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the Gulf Coast hurricanes, and this limited logistical disaster planning likely contributed to the initial challenges the agency faced in responding.<sup>8</sup> We recommended that SBA develop time frames for completing key elements of a disaster management plan and a long-term strategy for acquiring office space, and assess whether the use of disaster simulations or catastrophe models would enhance the disaster planning process. In August 2008, SBA provided information to us on how the agency had implemented our recommendation to use disaster simulations to enhance its disaster planning. Other GAO reports, reports by other investigative agencies, and disaster management experts long have stated that comprehensive planning can help organizations prepare for potential disasters and mitigate their effects.

In the wake of the Gulf Coast hurricanes, SBA officials said that they recognized the importance of disaster planning—to improve planning, they created the agency’s first DRP and also conducted their first simulation.<sup>9</sup> In creating the DRP, SBA acknowledged the need for a systematic approach to carry out the agency’s disaster assistance mission and ensure coordination, awareness, and support throughout the agency. The plan, which was issued on June 1, 2007, was designed to provide procedures to better handle future disasters of all sizes. Its major components—infrastructure, human capital, information technology, and communications and outreach—are designed to help ensure that necessary resources are available, (including reserve corps, staff trained in disaster loan processing, office space, and information technology) and that SBA has established an enhanced approach for communicating with the public and coordinating with other disaster assistance groups.

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<sup>8</sup>GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, [GAO-07-114](#) (Washington, D.C.: Feb. 14, 2007).

<sup>9</sup>SBA refers to its comprehensive disaster response plan (as required by section 12075) as its DRP. SBA’s use of the term “disaster recovery plan” differs from how it is generally used in referring to an information technology-focused plan designed to restore operability of a system, application, or computer facility following an emergency.

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## Small Business Disaster Response and Loan Improvements Act of 2008

The Act comprises 26 provisions with substantive requirements for SBA; some with specific deadlines and some needing appropriations, and includes requirements that SBA must meet regarding disaster planning and response, disaster lending, and reporting.<sup>10</sup> For instance, the Act includes provisions to improve SBA's coordination with FEMA, require that the agency conduct biennial disaster simulations, create a comprehensive disaster response plan, and improve communication with the public when disaster assistance is made available. It includes requirements to improve ODA's infrastructure, appoint an official to oversee the disaster planning and responsibilities of the agency, and establish reporting requirements for various reports to Congress. The Act also includes provisions to create new SBA disaster loan programs, such as the Immediate Disaster Assistance Program that would provide small dollar loans immediately following a disaster and the Expedited Disaster Assistance Loan Program that would provide expedited disaster assistance to businesses.

The Act contains 9 provisions that establish deadlines for specific SBA actions that range from 30 days to 1 year after the Act's enactment (see table 2). For example, the Act requires SBA to conduct a study of whether the standard operating procedures (SOP) for loans offered are consistent with the regulations for administering the Disaster Loan Program and report to Congress on the study findings within 180 days after the Act's enactment. Additionally, the Act establishes multiple reporting requirements for SBA. One example of these reporting requirements is that SBA must submit an annual report to Congress on disaster assistance within 45 days after the end of each fiscal year. This annual report must include a report on the comprehensive disaster response plan, among other things.

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<sup>10</sup>In June 2008, as part of the Food, Conservation, and Energy Act (also commonly known as the Farm Bill), Pub. L. No. 110-246, 122 Stat. 1651, Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008. This law repealed and replaced a duplicative enactment, which had been enacted on May 22, 2008. However, the Farm Bill contains a provision that generally preserved the prior act's date of enactment if it would provide an earlier effective date than the date of enactment of the Farm Bill. Although the Act was enacted on June 18, 2008, the enactment date for purposes of determining the effective date is May 22, 2008. Therefore, all statutory deadlines presented in this report are calculated from May 22, 2008.

**Table 2: Small Business Disaster Response and Loan Improvements Act Statutory Deadlines**

<b>Requirement (Act section number)</b>	<b>Statutory deadline<sup>a</sup></b>
(1) SBA must issue regulations about coordination with FEMA to ensure that each application for disaster assistance is submitted as quickly as practicable (12062).	270 days
(2) SBA must create a marketing and outreach plan (12063).	90 days
(3) SBA must report to Congress on the findings and recommendations of a study looking at consistency between regulations and SOPs (12064).	180 days
(4) SBA must submit a report to Congress detailing the amendments to the disaster response plan—specifically the report must include updates on 12 items (12072).	3 months
(5) SBA must report to Congress about the individual assigned disaster planning responsibilities and related information (12073).	30 days
(6) SBA must develop, implement, or maintain a comprehensive disaster response plan and update it annually or following any major disaster in which the SBA Administrator declares eligibility for additional disaster assistance (12075).	Various <sup>b</sup>
(7) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing permanent criteria for qualified private lenders to make disaster loans;</li> <li>• report to Congress on progress of the regulations (12083).</li> </ul>	<ul style="list-style-type: none"> <li>• 1 year</li> <li>• 6 months</li> </ul>
(8) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing and implementing an Expedited Disaster Assistance Loan Program;</li> <li>• report to Congress on progress of the program (12085).</li> </ul>	<ul style="list-style-type: none"> <li>• 1 year</li> <li>• 5 months</li> </ul>
(9) SBA must submit to Congress reports on staffing, accounting, activities; disaster assistance; and contracting and loan approval rates (12091).	Various <sup>c</sup>

Source: GAO.

<sup>a</sup>Deadlines are calculated based on number of days or months after May 22, 2008. See footnote 10.

<sup>b</sup>According to the Act, a comprehensive plan is due within 180 days of the Act's enactment and must be updated annually or following any major disaster in which the SBA Administrator declares eligibility for additional disaster assistance thereafter.

<sup>c</sup>According to the Act, the staffing, accounting, and activities reports are due monthly. The deadline for the report on disaster assistance is 45 days after the end of the fiscal year—which runs from October 1 through September 30—and this report is due annually. The deadlines for the reports on contracting and loan approval rates are 6 months after the Act's enactment date.



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## SBA Fully Addressed Half of the Act's Provisions, but Has Not Yet Established Milestones for Implementation of Remaining Requirements

SBA has fully addressed requirements for 13 of 26 provisions of the Act, partially addressed 8, and took no action on 5 that are not applicable at this time. In addition, 9 of the 26 provisions are subject to deadlines and the agency has had limited success in meeting them. SBA officials told us the agency did not fully address requirements for some provisions because the agency has to make extensive changes to current programs or create new programs in order to comply with the Act's requirements. SBA officials also told us that the agency needed time to pilot new programs, such as private disaster assistance programs, before making final decisions about implementation. Also, SBA has not issued its first annual report to Congress on disaster assistance, due November 2008, issued an annually updated DRP since its initial June 2007 plan, or addressed how it would market its Disaster Loan Program in different areas of the country and adapt likely scenarios for certain regions prone to disasters. Furthermore, the agency did not provide milestone dates for completing implementation of these requirements and, as a result, Congress does not have reliable information on the extent to which SBA has addressed the requirements and made improvements to its program.

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## SBA Has Addressed Half of the Act's Provisions and Five Other Provisions Do Not Require Any Actions at This Time

SBA has fully addressed 13 of the 26 provisions of the Act, partially addressed 8, and took no action on 5 that are not applicable at this time.<sup>11</sup> For the 13 provisions SBA addressed, the agency's actions included making improvements to the agency's disaster loan planning and response; augmenting infrastructure, information technology, and staff; and improving disaster lending by increasing access to funds for loan applicants. For example, to improve the agency's disaster loan planning and response, the agency conducted a study on the consistency between the Disaster Loan Program's SOPs and regulations and reported its findings to Congress.<sup>12</sup> SBA has also taken steps to improve its infrastructure, information technology, and staff by putting in place a secondary facility in Sacramento, California to process loans during times when the main facility in Fort Worth, Texas is unavailable and by making improvements to DCMS to track and follow up with applicants.

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<sup>11</sup>Appendix II provides details on the 26 provisions of the Act and SBA's status in addressing the requirements.

<sup>12</sup>A report to the Senate Committee on Small Business and Entrepreneurship and U.S. House of Representatives Committee on Small Businesses, *Study on Consistency Between U.S. Small Business Administration Regulations and Standard Operating Procedures*. (Washington, D.C.: December 15, 2008).

Additionally, according to SBA officials, the agency increased DCMS' capacity from 2,000 to more than 12,000 concurrent users and expanded their disaster reserve staff from about 300 to more than 2,000 individuals.<sup>13</sup> Furthermore, the agency increased access to funds by making nonprofits eligible for economic injury disaster loans, increasing loan amounts from \$10,000 to \$14,000 without requiring collateral, and changing the appropriate maximum disaster loan amount from \$1.5 to \$2 million. See table 3 for other requirements of the Act that SBA has addressed.

**Table 3: Requirements of Act That SBA Addressed, as of June 2009**

Subject of requirement	SBA actions taken (Act section number)
Disaster loan planning and response	<ul style="list-style-type: none"> <li>• Studied and reported to Congress (December 2008) on the consistency between the Disaster Loan Program's SOPs and regulations (12064).</li> <li>• Changed requirements (July 2008), for loans greater than \$1 million, so that the borrower does not have to pay any non-amortized amount for the first 5 years of the repayment period (12070).</li> <li>• Submitted a report to Congress (August 2008) detailing planned updates to the DRP and conducted disaster simulation exercises (12072).</li> </ul>
Infrastructure, information technology, and staff	<ul style="list-style-type: none"> <li>• Updated and maintained SBA's centralized information system (DCMS) to track and follow up with applicants and increased the system's capacity from 2,000 to more than 12,000 concurrent users (12067).</li> <li>• Put in place an alternative facility in Sacramento, California for processing loans in the event the primary facility in Fort Worth, Texas is unavailable (12069).</li> <li>• Secured office space and made plans to accommodate an increased workforce in times of disaster (12076).</li> <li>• Established EODSPO and appointed a chief (June 2008) as director of all disaster planning responsibilities (12073).</li> <li>• Maintained more than 1,000 full-time ODA staff and more than 2,000 disaster reserve staff (12074).</li> </ul>
Disaster lending	<ul style="list-style-type: none"> <li>• Authorized (July 2008) economic injury disaster loans for nonprofit organizations (12061).</li> <li>• Increased (July 2008) loan amounts from \$10,000 to \$14,000 without requiring collateral (12065).</li> <li>• Allowed applicants to apply for economic injury disaster loans in cases of ice storms and blizzards (12071).</li> <li>• Changed requirements (April 2009) so that SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit (12077).</li> <li>• Increased (July 2008) maximum loan amount from \$1.5 to \$2 million (12078).</li> </ul>

Source: GAO analysis of the Act and SBA documents.

<sup>13</sup>SBA's disaster reserve consists of both active and ready reserve staff. SBA estimates 75 percent of their active reserve staff and 50 percent of their ready reserve staff will be available when called upon to quickly staff disaster field offices in the event of a major disaster.

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Based on discussions with SBA officials and our review, 4 of the 26 provisions require no action by SBA at this time due to their discretionary nature.<sup>14</sup> More specifically, 1 provision provides SBA the discretion to offer persons receiving disaster loans an option to defer repayment on their loans and another provision provides SBA discretionary authority to refinance Gulf Coast disaster loans. Two additional provisions only can be triggered if the Administrator determines a disaster is a catastrophic event and authorizes additional assistance. The statute states that the determination is only to be made for the most extraordinary and devastating events. Accordingly, SBA officials told us that the agency needs to take no action unless a disaster is declared a catastrophic event and the Administrator authorizes additional funding. Agency officials told us SBA is able to carry out the requirements of these two sections and stated that after the September 11, 2001, terrorist attacks in New York, the agency carried out one of the requirements by issuing regulations and permitting loans to small businesses located outside of the disaster area.<sup>15</sup>

Additionally, we found that at least 1 provision—the Small Business Bonding Threshold—requires no action at this time because it would require the agency to obtain additional appropriations.<sup>16</sup> For example, the provision states that the SBA Administrator may carry out the requirements of the section only with amounts appropriated in advance specifically to carry out the requirements. Accordingly, SBA would need to have an appropriation for implementation of that provision. However, the American Recovery and Reinvestment Act of 2009 (ARRA) generally increased the maximum contract amount for SBA bond guarantee to \$5 million until September 2010.<sup>17</sup> According to SBA's Office of General Counsel, under ARRA, small business contracts up to \$5 million are eligible for an SBA bond guarantee up to September 30, 2010.

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<sup>14</sup>Sections 12068, 12081, 12082, and 12086.

<sup>15</sup>13 C.F.R. pt. 123, subpt. G (2009). The travel restrictions placed around the disaster area adversely affected small businesses located throughout the United States because distributors that served New York businesses were located throughout the country. Accordingly, SBA expanded the eligibility for economic injury disaster loans to include businesses located outside of the disaster area.

<sup>16</sup>Under Section 12079, Small Business Bonding Threshold, SBA may for any procurement related to a major disaster, guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.

<sup>17</sup>Pub. L. No.111-5, title V, 123 Stat. 115, 151, 158-161 (2009).

**SBA Has Taken Steps to Partially Address the Remaining Requirements, but the Agency Has Not Demonstrated How It Will Address the Requirements for Region-Specific Marketing and Outreach**

SBA partially addressed 8 provisions of the Act by taking some actions to implement the requirements. For example, 1 provision requires SBA to update the comprehensive DRP annually; while the agency originally issued a plan in June 2007 and agency officials have participated in leadership seminars to discuss revisions to the plan, SBA has failed to comply with the Act and issue an updated plan, as required by section 12075. Moreover, the existing plan does not include information on, nor is there separate information addressing, as the Act requires in section 12063, regional marketing information. Additionally, at least 4 provisions require SBA to either create new or make changes to existing programs. Three of these 4 provisions require SBA to issue regulations within 1 year of the Act’s enactment, but the agency only has established regulations in draft form and has not issued any final regulations.<sup>18</sup> For the 8 partially addressed provisions, our analysis was based on actions described by SBA officials (see table 4).

**Table 4: Requirements of Act That SBA Partially Addressed, as of June 2009**

Description of requirement (Act section number)	SBA actions taken	SBA planned actions
(1) SBA must ensure that their disaster assistance programs are coordinated with FEMA programs to ensure that each application for disaster assistance is submitted as quickly as practicable. (12062)	<ul style="list-style-type: none"> <li>Met with FEMA officials to coordinate programs</li> <li>Developed <b>draft regulations</b><sup>a</sup> and sent to FEMA for inter-agency review</li> </ul>	<ul style="list-style-type: none"> <li>Publish direct final rule in <i>Federal Register</i></li> </ul>
(2) SBA must coordinate application periods with FEMA, increase public awareness of disasters, and create a marketing and outreach plan, including providing regional marketing and ensuring the information is made available to SBDCs. (12063)	<ul style="list-style-type: none"> <li>Coordinated application periods for disaster assistance with FEMA</li> <li>Communicated information to disaster loan applicants through press releases, newsletters, and fact sheets</li> <li>Submitted notification reports to Congress</li> </ul>	<ul style="list-style-type: none"> <li>SBA believes this requirement has been met<sup>b</sup></li> </ul>
(3) SBA is authorized to enter into agreements with private contractors to process disaster loans and SBA must coordinate efforts with IRS to ensure tax records are shared with loan processes quickly. (12066)	<ul style="list-style-type: none"> <li>Entered into contracts with private companies</li> <li>Met with IRS to discuss changes to tax information sharing processes</li> </ul>	<ul style="list-style-type: none"> <li>SBA and IRS plan to meet on an ongoing basis and update processes as necessary</li> </ul>

<sup>18</sup>On May 11, 2009, SBA, as part of its unified agenda for regulations at the proposed rule stage, indicated that in implementing the Act it will issue regulations to make conforming changes to existing regulations and establish three new programs: The Private Disaster Loan program, the Immediate Disaster Assistance program, and the Expedited Disaster Assistance program for businesses. SBA also indicated that it would issue new regulations to provide guidance on expanded assistance during catastrophic disasters and address coordination with FEMA. 74 Fed. Reg. 22009, 22010 (May 11, 2009).

Description of requirement (Act section number)	SBA actions taken	SBA planned actions
(4) SBA must develop, implement, and maintain a written comprehensive disaster response plan. SBA must update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance. (12075)	<ul style="list-style-type: none"> <li>• Issued DRP in June 2007</li> <li>• Participated in leadership <b>seminars and completed After Action Reports</b> to suggest draft revisions to plan</li> </ul>	<ul style="list-style-type: none"> <li>• SBA expects to issue an updated DRP by September 2009</li> </ul>
(5) Establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area. (12083)	<ul style="list-style-type: none"> <li>• Requested funding in FY 2010 President's Budget to implement pilot programs to test private disaster loans</li> <li>• Developed <b>draft regulations</b><sup>a</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Develop and implement pilot programs with private lenders</li> <li>• Publish final regulations in <i>Federal Register</i></li> </ul>
(6) SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders. (12084)		
(7) SBA must establish an Expedited Disaster Assistance Business Loan Program. (12085)		
(8) SBA must submit to Congress reports on staffing, accounting, activities each month; disaster assistance each year; and contracting and loan approval rates. (12091)	<ul style="list-style-type: none"> <li>• Submitted accounting, staffing, and activity reports to Congress</li> </ul>	<ul style="list-style-type: none"> <li>• Submit annual report on disaster assistance, contracting and loan approval rate reports to Congress</li> </ul>

Sources: Act and SBA documents.

<sup>a</sup>Items in bold are draft versions of documents that SBA officials discussed with us.

<sup>b</sup>SBA told us parts of their DRP and Leadership Guide for Managing a Response to a Disaster already meet all of the requirements of this section, but these documents do not address the requirement for regional marketing information.

According to agency officials, SBA did not fully address requirements for some provisions because the agency has to make extensive changes to current programs or create new programs to comply with the Act's requirements, and it takes time to implement these types of changes. More specifically, according to agency officials, SBA has not completely addressed some provisions because:

- **Sections 12062, 12083, 12084, 12085:** These 4 provisions require SBA to issue regulations or make amendments to its SOPs that either establish new disaster programs or make changes to an existing program, but the agency said it takes time to develop and issue regulations and, in some cases, it is developing pilot programs before making decisions about regulations. SBA officials told us they have requested funding to carry out requirements for two of these—the Immediate and Expedited Disaster Assistance Programs—in the fiscal year 2010 President's Budget.<sup>19</sup>

<sup>19</sup>According to agency officials, the pilot program will be designed to test requirements applicable to sections 12084 and 12085.

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According to SBA, the funds will be used to implement pilot programs with private commercial lenders. SBA officials told us that such a pilot would be necessary to see how private lenders would administer the programs.

- **Section 12066:** Requires coordination between SBA and IRS to ensure tax records are shared quickly, and the two agencies intend to meet on an ongoing basis and update processes, as necessary.
- **Section 12075:** Requires the agency to issue an updated comprehensive DRP, and while the agency has drafted its updated plan, the draft may undergo additional changes after the agency holds its next Senior Leadership Seminar in which it will conduct disaster simulation exercises—scheduled for June 29-30, 2009—and then agency officials must submit the updated plan to the new Administrator for review and approval.
- **Section 12091:** Establishes a new reporting requirement that SBA submit an annual report to Congress on disaster assistance each fiscal year, but SBA has not issued an annual report because the agency is awaiting input from the new Administrator. Furthermore, EODSPO staff are responsible for developing and submitting the annual report to Congress, but SBA officials told us the office was not fully staffed in November 2008 when the first annual report on disaster assistance was due to Congress. Specifically, the Act requires that SBA report annually on the total number of SBA disaster staff, major changes to the Disaster Loan Program (such as changes to technology or staff responsibilities), a description of the number and dollar amount of disaster loans made during the year, and SBA's plans for preparing and responding to possible future disasters.<sup>20</sup>

Additionally, we believe that SBA has partially addressed the provision in section 12063 mandating region-specific marketing and outreach. However, agency officials told us that their comprehensive DRP and Leadership Guide for Managing a Response to a Disaster include marketing and outreach components and satisfy the Act's requirement, and therefore, they do not believe a separate plan is necessary. While SBA

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<sup>20</sup>The Act also states the annual report must include information on some requirements under certain provisions, such as (a) the regulations on coordination with FEMA to assure that applications for disaster assistance are submitted as quickly as practicable, as required under section 12062; (b) disaster simulation exercises conducted by the agency under section 12072; (c) updates to the comprehensive DRP, required under section 12075; and (d) updates to SBA's plans for securing office space to accommodate an expanded workforce, required under section 12076.

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believes that this requirement has been met, the *DRP and Leadership Guide* do not provide region-specific marketing information or have steps in place to ensure that the information is available to SBDCs—as required by the Act. Specifically, the Act states the marketing and outreach plan must (1) encourage a proactive approach to disaster relief efforts; (2) make clear the services provided by SBA; (3) describe SBA’s different disaster loan programs, how they are made available, and the eligibility requirements for each; (4) provide regional marketing information, focusing on disasters occurring in each region, and likely scenarios for disasters occurring in each region; and (5) ensure the marketing and outreach plan is available at SBDCs and on SBA’s Web site. For example, lessons learned from the 2005 Gulf Coast hurricanes can provide a basis for developing marketing information for regions that may be prone to large scale disasters affecting large geographic areas. Based on our review, the *DRP and Leadership Guide* do not include regional marketing information, such as lessons learned from prior disasters, and it is unclear how SBA ensures availability of the information to SBDCs and the public through the agency’s Web site. Also, as we will describe later, officials with whom we spoke during our site visits to Iowa and Texas noted the importance of regional marketing and outreach information and suggested this type of information would be helpful prior to a disaster. By not developing region-specific information in its updated plan and clear mechanisms to share the information with SBDCs, SBA is not in compliance with requirements of the Act, and has not fully leveraged the efforts of regional entities, such as SBDCs and emergency management groups, to ensure that it and they will be better prepared for future disasters.

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**SBA Has Had Limited Success in Meeting Deadlines of the Act, Including Issuing An Annual Report and Updating the *DRP***

SBA has had limited success in meeting the deadlines in 9 provisions of the Act. The agency met some deadlines for 4 provisions, missed one deadline by 27 days, and missed deadlines for the 4 remaining provisions—in some cases, by many months. The statutory deadlines range from 30 days to 1 year after the Act’s enactment. Table 5 shows the status of SBA’s efforts to meet the deadlines, as of June 2009.

**Table 5: Status of SBA Efforts to Meet the Act’s Deadlines, as of June 2009**

<b>Requirements with deadlines (Act section number)</b>	<b>Date of statutory deadline</b>	<b>Status</b>
(1) SBA must issue regulations about their coordination with FEMA to ensure that each application for disaster assistance is submitted as quickly as practicable (12062).	February 16, 2009	Deadline not met – SBA developed draft regulations, but has yet to publish final regulations.
(2) Create a marketing and outreach plan (12063).	August 20, 2008	Deadline not met – SBA believes this requirement has been met, but the agency’s efforts do not include a region-specific component, as required by the Act.
(3) SBA must report to Congress on the finding and recommendations of a study looking at consistency between regulations and SOPs (12064).	November 18, 2008	Deadline not met – SBA submitted a report to Congress 27 days after deadline, on December 15, 2008. <sup>a</sup>
(4) SBA must submit a report to Congress detailing amendments to the major disaster response plan—specifically the report must include updates on 12 items (12072).	August 22, 2008	Deadline met – SBA submitted a report to Congress in August 2008, but this information has not been issued in an updated DRP. <sup>b</sup>
(5) SBA must report to Congress about the individual assigned disaster planning responsibilities and related information (12073).	June 21, 2008	Deadline met – SBA appointed an official to head the agency’s newly created EODSPO in June 2008. <sup>c</sup>
(6) SBA must develop, implement, or maintain a comprehensive DRP (12075).	Various <sup>d</sup>	Some deadlines met – SBA issued its DRP in June 2007 in anticipation of the Act’s requirement, but has not issued an annual updated plan.
(7) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing permanent criteria for qualified private lenders and;</li> <li>• report to Congress on progress of the regulations (12083).</li> </ul>	<ul style="list-style-type: none"> <li>• May 22, 2009</li> <li>• November 22, 2008</li> </ul>	Deadline not met – SBA has developed draft regulations, but has yet to publish final regulations, and has not submitted its report to Congress on the progress of the regulations.
(8) SBA must <ul style="list-style-type: none"> <li>• issue final regulations establishing and implementing an Expedited Disaster Assistance Loan Program and;</li> <li>• report to Congress on progress of the program (12085).</li> </ul>	<ul style="list-style-type: none"> <li>• May 22, 2009</li> <li>• October 22, 2008</li> </ul>	Deadline not met – SBA submitted a progress report to Congress 16 days late, on November 7, 2008 <sup>e</sup> and has developed draft regulations, but has yet to publish final regulations.
(9) SBA must submit to Congress reports on staffing, accounting, activities each month; disaster assistance each year; and contracting and loan approval rates (12091).	Various <sup>f</sup>	Some deadlines met – SBA submitted monthly reports to Congress starting in December 2008, but has not issued an annual report on disaster assistance, nor contracting and loan approval reports.

Sources: Act and SBA documents.



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<sup>a</sup>A report to the Senate Committee on Small Business and Entrepreneurship and U.S. House of Representatives Committee on Small Businesses, *Study on Consistency Between U.S. Small Business Administration Regulations and Standard Operating Procedures*. (Washington, DC: December 15, 2008).

<sup>b</sup>U.S. Small Business Administration, *Disaster Response Plan Report Under Section 12072 of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246)*. (Washington, DC: August 2008).

<sup>c</sup>U.S. Small Business Administration, *Disaster Planning Report Under Section 12073 of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246)*. (Washington, DC: November 2008).

<sup>d</sup>SBA must update the plan annually and following any major disaster when SBA declares eligibility for additional disaster assistance.

<sup>e</sup>U.S. Small Business Administration, Report Required by Section 12085(e) of Title XII, Subtitle B of the Food, Conservation, and Energy Act of 2008 (Public Law 110-246). (Washington, DC: November 2008).

<sup>f</sup>According to the Act, SBA must submit, among other reports to Congress, monthly reports on staffing, accounting, and activities on major disasters; an annual report; and reports on contracting and loan approval rates 6 months after enactment. The deadline for the contracting and loan approval reports was November 22, 2008, while the deadline for the annual report was 45 days after the fiscal year end or November 14, 2008.

As we discussed earlier, the Act requires that SBA address region-specific marketing and outreach requirements, but we believe that its current DRP and Leadership Guide for Managing a Response to a Disaster do not address all the requirements in the Act and, therefore, SBA missed this deadline. Additionally, the Act requires SBA to issue final regulations for two new programs—the Private and Expedited Disaster Assistance Programs—and regulations for SBA’s coordination of disaster assistance programs with FEMA. SBA officials told us the agency has developed draft regulations for these requirements, but missed the statutory deadlines to publish final regulations. According to SBA officials, they missed the deadlines because they needed time to issue new regulations, as well as create and pilot new disaster programs, and conduct an interagency review with FEMA before making final decisions about implementation.

The Act also establishes multiple reporting requirements, and while SBA has met some deadlines, others were missed. For example, SBA successfully submitted monthly accounting, staffing, and activity reports to Congress, starting in December 2008. However, the agency missed deadlines for submitting its first annual report on disaster assistance, due November 2008, as noted earlier, and contracting and loan approval rate reports. According to officials, SBA is waiting for input from the newly confirmed Administrator—who also must review and approve the reports prior to their issuance.

In addition, because SBA has not published an update to the DRP since the plan’s issuance in June 2007, we found that it contained obsolete

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information in some areas, and did not include information on many of the changes resulting from the Act or the agency's own disaster reform efforts since 2007, such as the establishment of EODSPO and appointment of a chief as director of all disaster planning responsibilities, update to DCMS to track and follow up with applicants, the increase in the system's capacity from 2,000 to more than 12,000 concurrent users, and incorporation of disaster simulations to enhance its disaster planning. As we noted earlier, agency officials may revise the plan following its leadership seminar in June 2009. Agency officials said the updated plan will likely be issued in August or September 2009 and will incorporate changes to the Disaster Loan Program resulting from the Act.

Finally, the agency did not provide milestone dates for completing implementation of the requirements that have not been completely addressed. Because these actions and reports have been delayed and SBA did not have a plan detailing expected completion dates on the requirements that still need to be addressed, Congress does not have reliable information on the extent to which SBA is reforming its Disaster Loan Program. Furthermore, failure to produce the annual report can lead to a lack of transparency on the agency's progress in reforming the program, and the delay in updates to the DRP limits SBA's ability to adequately prepare for and respond to disasters.

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## SBA's Response Following 2008 Disasters Aligned with Certain Components of its DRP, but SBA's Response to Disaster Victims' Feedback on the Application Process Could be Improved

SBA's initial response after the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, such as infrastructure, human capital, information technology, and communications and outreach. For example, many of the individuals we met in Iowa and Texas said that SBA staff provided outreach and public information about its Disaster Loan Program, distributed application information, assigned knowledgeable customer service representatives to various DRCs and BRCs, and assisted in the initial application process by answering questions, providing guidance, and offering one-on-one help. Individuals we interviewed and results from SBA's 2008 Disaster Loan Program Customer Satisfaction Survey provided some positive feedback about SBA's performance following recent disasters. However, interviewees and these same survey results indicated areas for improvement; in particular, these sources both indicated that the application paperwork was burdensome and that the application process needed improvement. SBA officials told us that they intend to improve the application process, but did not provide documentation of such plans and did not appear to take advantage of feedback from applicants, such as that received from the customer survey.

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## Major Disasters of 2008 Provided a Limited Test of SBA's Ability to Plan for and Respond to Disasters in Accordance With Its DRP

Three major disasters struck our nation in 2008 that provided a limited test of SBA's ability to plan for and respond to major disasters and tested the improvements stemming from recent disaster reform efforts—the Midwest floods and Hurricanes Ike and Gustav.<sup>21</sup> First, beginning in late May 2008, tornadoes, severe storms, and flooding affected six Midwestern states (Iowa, Illinois, Indiana, Missouri, Nebraska, and Wisconsin). Notices of Presidential declarations of major disasters were issued in each state. Flooding continued into July 2008 in some areas, with Cedar Rapids, Iowa, being hardest hit, in terms of suffering the most physical damage and business losses. The floods left 13 dead and damage region-wide was estimated in the tens of billions of dollars. In addition to FEMA, state and local emergency management agencies, the American Red Cross, and the National Guard assisted the victims of flooding with disaster relief and evacuation. Second, in early September 2008, a major disaster struck the Gulf Coast states when Hurricane Ike made its way through Texas and Louisiana. Hurricane Ike made landfall as a Category 2 hurricane near Galveston, Texas, on September 7, 2008, and was declared a major disaster by the President on September 13, 2008.<sup>22</sup> Ike was the third most destructive hurricane to make landfall in the United States and the third major hurricane of the 2008 Atlantic hurricane season; it caused widespread damage to some Gulf Coast areas already trying to recover from Hurricane Gustav, which hit Louisiana on September 1, 2008.<sup>23</sup> Hurricane Ike was blamed for at least 100 deaths and damages are estimated at approximately \$24 billion.

Based on our review, SBA's response following the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, and the

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<sup>21</sup>While SBA received a large number of applications as a result of Hurricane Gustav, the agency's total loan amount approved for the Midwest floods and Hurricane Ike were far greater than for Hurricane Gustav. Because of the greater dollar amounts approved as a result of the Midwest floods and Hurricane Ike, we decided to conduct site visits to areas affected by these two disasters.

<sup>22</sup>Hurricane Ike was a Category 2 hurricane, according to the Saffir-Simpson Hurricane Wind Scale—which is a 1 to 5 categorization, based on the hurricane's intensity with 5 indicating the most severe winds.

<sup>23</sup>According to FEMA, Hurricane Gustav affected areas of Florida, Alabama, Mississippi, Louisiana, and Texas. Affected counties and parishes are eligible for different types of federal assistance, but SBA approved disaster loans due to damage caused by Hurricane Gustav in Mississippi and Louisiana. For example, 52 Louisiana parishes were declared eligible for individual assistance and all 64 parishes were declared for some form of public assistance. As of June 2009, SBA approved more than 4,100 applications, totaling more than \$123 million in disaster loans to home and business owners affected by Hurricane Gustav.

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agency's efforts were in accordance with the plan. Though we noted earlier that the 2007 plan has not been updated and, therefore, has some obsolete information, for purposes of this study, we found that the plan addresses the major components—including infrastructure, human capital, information technology, and communications and outreach—and puts into writing a disaster assistance framework and related processes for how the agency plans to prepare for and respond to victims of potential disasters, and subsequently, offer assistance through its Disaster Loan Program. For example, according to SBA, following both disasters the agency used its organizational infrastructure and key staff in each of its core functions to provide disaster assistance. ODA also utilized available operational and technological support, and communications and outreach, to help ensure that the agency would be able to provide timely financial assistance to the disaster victims. While the 2008 disasters were not as severe as those in 2005, the agency's performance in the aftermath of the 2008 flooding dramatically improved over its performance in the aftermath of the 2005 Gulf Coast hurricanes. Specifically, following the 2005 Gulf Coast hurricanes, processing times for a home loan reached a maximum of about 90 days, but in 2008 the processing time was about 5 days. Similarly, SBA took 70 days to process a business loan in 2005, but in 2008 the average processing time was about 9 days. In addition, on June 24, 2008, SBA opened a BRC in Cedar Rapids, which was co-located with FEMA's DRC. The BRC enabled businesses owners and homeowners to work directly with SBA staff to learn about available recovery resources and programs, receive counseling, and receive face-to-face answers to their questions. At the peak of its efforts, SBA reported having 194 staff working from about 67 centers in Iowa to provide recovery assistance to flood victims in more than 81 counties. As of June 2009, SBA had approved more than \$411 million in disaster assistance to individuals and business owners whose homes or property were damaged by the Midwest floods.

In addition, in the aftermath of Hurricane Ike, SBA had about 116 disaster staff in Texas and 200 in Louisiana. In Texas, particularly, SBA customer service representatives provided assistance to Hurricane Ike victims through 13 DRCs, two Disaster Loan Outreach Centers, and two BRCs. The customer service representatives were available to meet individually with disaster victims to issue loan applications, answer questions about SBA's disaster loan program, explain the application process, and help individuals complete their applications. Additionally, as of June 2009, SBA had approved approximately \$677 million in SBA disaster loans to Texas and Louisiana homeowners, renters, businesses, and nonprofits who sustained damages from Hurricane Ike. Specifically, SBA provided about \$478 million in loans to more than 9,260 homeowners and renters, and

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about \$199 million in loans to nearly 1,640 businesses and nonprofit organizations.

Similar to its response following the Midwest floods, SBA took less time to process disaster loan applications during its post-Hurricane Ike response because of upgrades made to DCMS, an expanded disaster response workforce, and an online electronic loan application—eliminating the need to mail an application or visit a center. As a result, the time needed to process a home loan following Hurricane Ike averaged about 5 days and a business loan averaged about 12 days.

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**SBA's Response to Recent Major Disasters Considered Satisfactory, but Both Our Interviewees and SBA's Survey Results Identified Areas for Improvement**

Individuals affected by both disasters told us they considered the agency's overall performance satisfactory in responding to the disasters. However, the individuals believed some improvements could be made to SBA's disaster loan application process. Similarly, our review of SBA's 2008 Disaster Loan Program Customer Satisfaction Survey also showed that respondents provided some positive feedback about SBA's performance, but they too believed that improvements were needed. During our site visits to areas in Iowa and Texas, we obtained insights on the devastation caused by the Midwest floods and Hurricane Ike from various state and local government officials and small business owners, as well as their perceptions of SBA's initial efforts. SBA District Office officials and SBDCs affected by the disasters, as well as representatives of nongovernmental organizations also gave their views on the disaster recovery efforts. According to SBA and SBDC officials, state and local government officials, nongovernmental representatives, and business owners we interviewed in Iowa and Texas, in the days immediately following the disasters, ODA staff reported to the affected areas, established several BRCs, assigned knowledgeable customer service representatives, and began providing the needed disaster assistance. The individuals said that SBA representatives distributed loan applications and assisted in the initial application process by answering questions, providing guidance about the Disaster Loan Program, its eligibility rules and requirements, offering one-on-one assistance with filling out the disaster loan application, and accepting completed applications.

Additionally, interviewees said SBA staff provided outreach and public information to affected individuals and businesses about the Disaster Loan Program. For example, to ensure that individuals and businesses knew about available assistance, SBA staff worked with the local media in providing television, radio and newspaper interviews, communicating information about loan availability, and disseminating information through

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various community briefings and town hall meetings. The interviewees said SBA staff also made several visits to state and local groups, such as the Chamber of Commerce to tell them about SBA's Disaster Loan Program. Many of the people we interviewed said that while most applicants used the paper application, the electronic loan application—introduced in August 2008 just prior to Hurricane Ike—worked well and they were not aware of any DCMS problems. Furthermore, many of them were satisfied overall with SBA's initial disaster assistance efforts, and the feedback we received on SBA's response to the disasters indicated to us that the agency's assistance was consistent with the processes and procedures outlined in the DRP.

As mentioned, respondents to SBA's 2008 Disaster Assistance Program Customer Satisfaction Survey also were somewhat satisfied with ODA's Disaster Loan Program.<sup>24</sup> Specifically, our review of the 2008 survey results showed that ODA's aggregated customer satisfaction index score was 55 on a scale of 100. Respondents, however, had mixed reaction to the program and the agency's performance in key areas such as application processing, SBA's Customer Service Center and the disaster recovery centers, inspection and decision processes, and loan closing.<sup>25</sup> Specifically, survey results showed applicants who were declined for an SBA disaster loan had lower satisfaction ratings compared to applicants that were approved for disaster loans. For example, the declined applicants' overall customer satisfaction index was 34 as compared to approved applicants' customer satisfaction index, which ranged from 63 to 81, with homeowners and renters generally more satisfied than business owners.<sup>26</sup> The survey results also showed that the inspection process and disaster

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<sup>24</sup>The response rate for the survey was about 20 percent. About 4,800 loan recipients and declined applicants were included in the survey population, which resulted in approximately 570 completed responses used for survey analysis. The survey results should be viewed with caution because of the low response rate.

<sup>25</sup>The American Customer Satisfaction Index (ACSI) is the national indicator of customer evaluations of the quality of goods and services available to U.S. residents. ACSI is a uniform cross-industry/government measure of customer satisfaction, including its causes and its effect. ACSI is provided through a partnership of the University of Michigan Business School, Claes Fornell International (CFI) Group, and the American Society for Quality.

<sup>26</sup>There is a range of scores because the survey includes four categories of approved applicants: homeowners (81), renters (80), business owners (63), and recipients of economic injury disaster loans (66). The scores address the respondents' overall satisfaction, satisfaction compared to expectations, and satisfaction compared to an "ideal" organization, based on averages with 0 meaning "poor" and 100 meaning "excellent".

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recovery center areas were rated positively by all respondents. The respondents noted that the DRCs were easy to locate, had convenient hours of operation and accessible SBA staff; and rated SBA staff as being professional, knowledgeable and helpful. Additionally, respondents rated the SBA inspection process as an area where SBA staff excelled.

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### Interviewees and Survey Results Point to the Need for Improvements in the Application Process, but SBA Does Not Have A Clear Process with Which to Respond to Ongoing Concerns

While SBA's response to the disasters was considered satisfactory overall, both the individuals we interviewed and survey results point to areas for improvement and suggested ways to increase satisfaction with SBA's disaster assistance process. For example, some business owner applicants we interviewed expressed concern over collateral requirements and interest rates. They also complained about disparity between verbal versus final written loan terms and amounts, having multiple loan officers or case managers, and SBA not using district and branch office staff for follow up after centers were closed in their areas. Additionally, some business owner applicants said that the disaster loan application was too complex or lacked adequate instructions—a problem which interviewees believed sometimes caused some applicants to withdraw their application or decide not to apply for SBA disaster loans.

Both the interviewees and the survey results indicated the amount of paperwork required for the application process was burdensome, and interviewees also expressed concerns about the timeliness of loan disbursements. Specifically, some interviewees said that improvements were necessary to speed up loan disbursements because some business owners had to wait as long as 7 months after submitting the disaster loan application to receive an initial loan disbursement, by which time a small business could be so economically weakened that its future operations would be in question. In terms of the survey, business loan and economic injury disaster loan recipients were dissatisfied particularly with the timeliness of fund disbursements after loan approval, and rated the application process for business loans as among the areas most needing improvement. In addition, the application and decision process were consistently among the lower-rated performing areas.

In addressing some of the areas in need of improvement, many business owner applicants we interviewed suggested changes to SBA's disaster loan application process, such as providing partial disbursements earlier in the process and using bridge loans to help ensure disaster victims receive timely assistance. We also consistently heard from SBDCs and state and local emergency management agencies, the need for joint pre-planning and disaster preparedness efforts with SBA, and more up-front information

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about SBA's disaster response plan and their expected roles and responsibilities as part of that response effort. In addition, during our interviews, some business owner applicants complained that they had to provide copies of 3 years of federal income tax returns, although they had signed an IRS form 8821—Tax Information Authorization—which allows SBA to get tax return information directly from IRS.<sup>27</sup> Interviewees found this process burdensome and somewhat inefficient and, as a result, suggested that SBA change its application requirements to remove the requirement that applicants must provide copies of tax returns. SBA officials explained the current process for obtaining tax information from IRS and stated that SBA does not require copies of tax returns from all business applicants. Rather, they said that SBA requests copies on a case-by-case basis when it is unable to determine repayment ability based on the tax transcript obtained by using IRS form 8821. However, our review of SBA's filing requirements for business loans showed that SBA's written procedures differed from those the officials explained. Specifically, SBA's written requirements for business loans state that while SBA requires business applicants to sign form 8821, applicants also must submit copies of their tax returns. In addition to the potential paperwork burden for applicants, the conflicting written procedures and SBA's current process could cause confusion and inefficient processing during disaster responses.

Similarly, one suggestion from the ACSI report of survey results was that SBA improve or maintain its process in high-performing areas of the loan application process and work to improve its performance in the low-performing areas to demonstrate commitment to further improving the process for future disaster loan applicants. For instance, areas with the lowest impact on an applicant's overall satisfaction, such as the inspection process and DRCs, were rated higher than other areas by all respondent groups and those areas rated as having the highest impact on satisfaction for most respondents—the application and decision areas—scored lowest in satisfaction.

Consequently, in reporting the results and suggestions for agency action, SBA was encouraged to: (1) maintain its efforts in areas that were high performing and had low impact on overall customer satisfaction, and (2)

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<sup>27</sup>SBA officials told us the agency requests copies of tax records to help loan officers prepare cash flow analyses and to calculate repayment ability.



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increase its efforts to improve areas that were low performing and had a higher impact on satisfaction.

During our review and analysis of the 2008 customer satisfaction survey, we found that the survey's results were not a formal part of the agency's process for reforming its disaster loan program, or its efforts to continually improve the application process. SBA officials were unable to cite specific actions taken to incorporate the survey's results into efforts to improve its disaster program, and it appears that its primary use for the annual survey is linking it to the agency's budget and performance accountability reports to provide an outcome measure for the Disaster Loan Program. Additionally, apart from SBA's 2008 launch of its online disaster loan application, we found that the agency's other disaster reform efforts, to date, have not focused on the complexity of the disaster loan application (particularly for business applicants), the extensive amount of paperwork and documents required, or the timeliness of disbursements. While SBA officials said they continually look for ways to improve the disaster loan application, the agency does not appear to have a formal process for addressing problem areas within its program and making needed improvements. Consequently, it may be missing opportunities to demonstrate its commitment to further improve the application process for future applicants.

Finally, some of the improvements suggested by the individuals we interviewed are related to some requirements in the Act. For example, as we noted earlier, the Act requires that SBA provide specific regional marketing and outreach information and scenarios in its DRP, and include SBDCs in preparing for future disasters. Additionally, the Act requires that SBA coordinate with IRS, as necessary, in sharing tax records of disaster loan applicants to ensure expedited processing of all disaster loans. As mentioned earlier in this report, as of June, SBA has yet to address these two requirements.

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## Conclusions

SBA's response to the 2005 Gulf Coast hurricanes exposed many deficiencies in the agency's Disaster Loan Program and demonstrated the need for reform. Since then, SBA has taken steps to improve its program. For instance, SBA issued a DRP, adopted an electronic loan application, upgraded the system capacity of its DCMS, improved employee training and expanded its disaster reserve staff. With passage of the Act, Congress also acted to transform and improve SBA's Disaster Loan Program and ensure the agency is better prepared to handle future large-scale disasters. SBA adapted its initial DRP in June 2007, which laid out a framework and

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processes the agency has in place that would enable it to respond effectively to disasters, and the Act requires that SBA have such a plan and regularly update it. However, SBA has not addressed specifically how it would market its Disaster Loan Program in different areas of the country, nor adapted likely scenarios for certain regions prone to disasters. Although SBA believes that it has addressed the requirement for marketing and outreach in its DRP, the 2007 plan does not provide any regional perspective, nor has the agency updated this plan since 2007. We consistently heard from regional entities, such as SBDCs and emergency management groups, about the need for more upfront information on SBA's Disaster Loan Program and their expected roles and responsibilities in disaster response efforts. By taking such actions, SBA could leverage the efforts and capacity of SBDCs, as well as state and local emergency management agencies, and ensure that it and they will be better prepared for future events, especially in disaster-prone areas.

SBA has taken a number of steps to address the many requirements of the Act; however, some provisions have presented challenges for SBA in implementing specific requirements and meeting some associated deadlines. For example, SBA has not completely met certain requirements and the agency does not have an implementation plan in place to ensure the remaining requirements are addressed. Some of the changes required by the Act, especially those requiring SBA to create new programs, will take time to implement. It will be important for the agency to do so in a comprehensive manner; but because the implementation process already is behind schedule, it also will be important for SBA to ensure it has a plan for implementing the remaining requirements and report on its progress to Congress. Failure to produce annual reports on schedule can lead to a lack of transparency on the agency's progress in reforming the program. Delays in updates to the DRP also limit its ability to adequately prepare for and respond to disasters. By continuing its efforts to address and implement all requirements in the Act and expeditiously communicate its actions, SBA could improve its operations for the 2009 hurricane season, build on the lessons learned in the aftermath of the 2005 Gulf Coast hurricanes, and further signal its commitment to its mission of providing affordable and timely financial assistance to help businesses and homeowners recover from disasters.

SBA's initial response following the 2008 Midwest floods and Hurricane Ike aligned with certain components of its DRP, and the affected individuals we interviewed, as well as respondents to SBA's 2008 Disaster Loan Program Customer Satisfaction Survey were somewhat satisfied with the agency's performance after the major disasters of 2008. However, the

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individuals we interviewed and survey results both indicated areas for improvement with SBA's disaster loan program. For instance, our interviewees and the survey results indicated the amount of paperwork in the application process was burdensome and cited the application process, including tax information requirements, as an area for improvement. As discussed in this report, while SBA has made progress, the agency has missed opportunities to further improve its Disaster Loan Program, and, in particular, improve the application process for future applicants. For example, it was unclear to what extent it had a formal process in place for addressing identified problem areas and making needed improvements to its program. By establishing such a process to address identified problem areas, SBA could better demonstrate its commitment to improve the Disaster Loan Program.

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## Recommendations for Executive Action

To facilitate SBA's progress in meeting and complying with requirements of the Act and improve the Disaster Loan Program, we recommend that the Administrator of SBA take the following five actions:

- develop procedures for regional entities that would enable SBA to meet all region-specific requirements of the Act. Specifically, building on the lessons learned from previous disasters, SBA should include likely scenarios for certain regions prone to disasters and regional marketing information for SBDCs, other local resources, and local emergency management groups. In addition, SBA should make this information and other Disaster Loan Program information readily available to these regional entities prior to the likely occurrence of a disaster;
- complete the first annual report to Congress on disaster assistance, and adhere to the required time frames for subsequent annual reports;
- expeditiously issue an updated DRP that reflects recent changes resulting from the Act's requirements, as well as SBA's own disaster reform efforts;
- develop an implementation plan and report to Congress on the agency's progress in addressing all requirements within the Act—including creating and implementing new programs, such as the Immediate and Expedited Disaster Assistance Programs—and include milestone dates for completing implementation and any major program, resource, or other challenges the agency faces as it continues efforts to address requirements and meet deadlines in the Act; and
- develop and implement a process to address identified problems in the disaster loan application process for future applicants.

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## Agency Comments and Our Evaluation

We provided SBA a draft of this report for review and comment. In comments provided to us in an email, SBA generally agreed with our recommendations and stated the agency's plan to incorporate them into its ongoing efforts to implement the Act and improve the application process. Specifically, SBA said that the agency has plans to expand its outreach efforts to ensure the public in all regions of the country are more aware of SBA disaster assistance programs before a disaster strikes. SBA is also planning to submit both the required annual report, and the 2009 revision to its DRP to Congress by November 15, 2009. Additionally, SBA officials said the agency has plans to develop an implementation plan for completion of the remaining provisions. Finally, in response to our recommendation on the application process, the officials cited the electronic loan application as an example of its efforts to improve the application process and said the agency has plans to continue its improvement efforts and make such improvements an ongoing priority. The comments also referred to ongoing efforts since 2005 to improve various processes, including 79 projects to improve the processing and disbursement process, but did not specify how these efforts improved the application process for disaster victims. In addition, SBA did not say how it would implement a formal process to address identified problem areas in the disaster loan application process.

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We are sending copies of this report to interested Members of Congress and the Administrator of the Small Business Administration. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Please contact me at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov) if you or your staff have any questions about this report. Contact points for our Office of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,



William B. Shear  
Director, Financial Markets and  
Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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Our objectives were to review (1) the extent to which the Small Business Administration (SBA) addressed the requirements of the Small Business Disaster Response and Loan Improvements Act of 2008 (Act), and (2) how SBA's response, following the major disasters of 2008, aligned with key components of its June 2007 Disaster Recovery Plan (DRP).

To respond to these objectives overall, we reviewed agency documents related to SBA's implementation of the Act's requirements, identified key components of the DRP, interviewed key officials at SBA headquarters about their roles and responsibilities in implementing the Act and SBA's response to major disasters in 2008, and identified the requirements specified in the Act—including any statutory deadlines for implementing specific provisions of the Act. SBA officials we met with included senior officials representing the Executive Office of Disaster Strategic Planning and Operations (EODSPO) and the Office of Disaster Assistance (ODA). We also met with officials from SBA's Office of the Inspector General to discuss planned audits and oversight activities related to SBA's Disaster Loan Program and the agency's implementation of the Act.

To determine the extent to which SBA addressed the requirements and deadlines of the Act, we

- reviewed the Act and identified 26 provisions with substantive statutory requirements and 9 provisions with related deadlines;
- reviewed the Act to determine which provisions require general or explicit appropriations;
- obtained, reviewed and analyzed documentation, such as policy memorandums, reports issued to Congress, or progress reports to determine if requirements had been addressed and deadlines had been met;
- interviewed agency officials to obtain information on what, if any, challenges exist that may affect SBA's ability to address certain requirements—including identifying reasons for any delays in meeting the statutory deadlines; and
- met with SBA to obtain information about the agency's next steps and resources the agency identified it needs to completely address the remaining provisions. During these meetings, we requested expected time frames for completion, milestone dates, resources needed, and reasons for delay, if applicable, for the partially addressed provisions.

To assess whether SBA's initial response following the 2008 disasters aligned with key components of its 2007 DRP, we conducted site visits to areas impacted by the 2008 Midwest floods (Iowa) and Hurricane Ike

(Texas). We reviewed SBA's DRP and other plans issued by the agency (i.e., SBA's ODA Field Operations, Processing and Disbursement Center, and Customer Service Center Disaster Response Plans) to identify some of the key components of the plans such as determining the agency's strategy for establishing field operations, disseminating information, coordinating with Small Business Development Centers (SBDC) and other regional entities, and effectively processing applications, as well as the agency's DRP that discusses its approach for being prepared for and responding to a disaster declaration, strategy for internal and external communication, and a description of ODA's responsibilities. In both Iowa and Texas, we interviewed various stakeholders including SBA and SBDC officials, state and local government officials, representatives of local Chambers of Commerce and economic development organizations, and small business owners to discuss what worked well, in terms of SBA carrying out key components of their DRP, and what, if any, improvements were suggested for SBA's Disaster Loan Program and processes. While our limited number of site visits was too small for generalizing the information obtained to assess ODA's overall ability to respond to any disaster, the observations and perspectives expressed by the various stakeholders was sufficient to suggest that SBA has begun institutionalizing key reforms in its disaster program's policy and practices. Furthermore, we obtained information about loan applicants' and recipients' satisfaction with the agency's Disaster Loan Program and related services immediately following the Midwest floods and Hurricane Ike.

We also reviewed the 2008 Disaster Assistance Program Customer Satisfaction Survey that addressed five customer segments which measure customer satisfaction with SBA's Disaster Loan Program.<sup>1</sup> It included four types of loan recipients—homeowners, renters, and business owners who received physical damage and economic injury disaster loans, as well as declined applicants. The survey questionnaire, which was developed through a collaborative effort between the Claes Fornell International (CFI) Group and SBA, measured overall satisfaction with SBA's program in areas such as application processes, customer service center, recovery center, and inspection processes. About 4,800 loan recipients and declined applicants were included in the survey population resulting in about 570

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<sup>1</sup>The survey used the American Customer Satisfaction Index (ACSI) which is the indicator of customer evaluations of the quality of goods and services available to U.S. residents. Since 1999, the ACSI has measured satisfaction, its causes, and its effects for more than 100 programs of federal government agencies. The ACSI is produced by the University of Michigan Business School, CFI Group, and the American Society for Quality.

completed responses used for analysis—a response rate of about 20 percent. Further, the number of completed interviews was based on a quota for calling among the five customer segments, with weights applied to responses for the number of completed surveys and the number of loan recipients and declined applicants studied. Our overall data reliability assessment of the Customer Satisfaction survey was generally based on discussions with SBA officials and our knowledge of the Disaster Loan Program, publicly available information on ACSI, and our prior reports which included analyses of past years' survey results. As a result, we determined that survey data were sufficiently reliable for purposes of this report.

We conducted this performance audit from October 2008 through July 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Summary of the 2008 Small Business Disaster Response and Loan Improvements Act Requirements

**Figure 1: SBA's Status in Addressing Requirements and Deadlines of the Small Business Disaster Response and Loan Improvements Act of 2008**

Section	Description of requirement	Status	Deadline
12061	SBA permitted to make economic injury disaster loans to nonprofits.	●	
12062 <sup>a</sup>	SBA must ensure its disaster assistance programs are coordinated to the maximum extent practicable with FEMA programs.	◐	○
12063	Better public awareness of disaster declaration, application periods, and creation of a marketing and outreach plan.	◐	○
12064	SBA must conduct a study looking at the consistency between standard operating procedures and regulations of the Disaster Loan Program.	●	○
12065	SBA increased loan amounts from \$10,000 to \$14,000 without requiring collateral.	●	
12066	SBA authorizes private contractors to process disaster loans and coordinate efforts with IRS to expedite loan processing.	◐	
12067	SBA must develop, implement, or maintain a centralized information system to track and follow up with disaster loan applicants.	●	
12068	SBA is authorized to increase the deferment period of loans, but the deferment may not exceed 4 years.	N/A	
12069	SBA must put in a place a secondary facility for processing disaster loans in case the primary facility is unavailable.	●	
12070	SBA can not require the borrower to pay any non-amortized amount for the first 5 years after repayment begins.	●	
12071	SBA is authorized to make economic injury disaster loans in cases of ice storms and blizzards.	●	
12072	SBA must develop and implement a major disaster response plan and conduct a disaster simulation exercise at least once every 2 years.	●	●
12073	SBA must assign an individual the disaster planning responsibilities and report to Congress.	●	●
12074	SBA should ensure that the number of full-time equivalent ODA employees is not fewer than 800 and in the disaster cadre not fewer than 1,000.	●	
12075	SBA must develop, implement, or maintain a comprehensive written disaster response plan and update the plan annually.	◐	◐ <sup>b</sup>
12076	SBA must develop long-term plans to secure sufficient office space to accommodate an increased workforce in times of disaster.	●	
12077	SBA may not rely solely on the loan applicant's status as a major source of employment prior to the disaster to qualify for disaster loans beyond the current statutory limit.	●	
12078	Maximum disaster loan amount increased from \$1.5 to \$2 million.	●	
<b>12079</b>	<b>SBA may guarantee any surety against loss on a bid, payment, performance, or ancillary bond on any work order or contract that at the time of the bond execution does not exceed \$5 million.</b>	N/A	
12081	If the President declares a major disaster, SBA may declare eligibility for additional disaster assistance.	N/A	
12082	SBA permitted to make economic injury disaster loans to eligible small business concerns located anywhere in the US (including outside the disaster area) when the SBA declares eligibility for additional disaster assistance.	N/A	
12083 <sup>a</sup>	SBA must establish and implement a Private Disaster Assistance Program. SBA may guarantee timely payment of principal and interest on private disaster loans issued to eligible small businesses and homeowners within an eligible disaster area.	◐	○
12084	SBA must establish an Immediate Disaster Assistance Program to provide immediate small dollar loans through private lenders.	◐	
12085 <sup>a</sup>	SBA must establish an Expedited Disaster Assistance Business Loan Program.	◐	○
12086	SBA is allowed to institute a program to refinance Gulf Coast disaster loans resulting from Hurricanes Katrina, Rita, or Wilma up to an amount no greater than the original loan.	N/A	
12091	SBA must submit reports to Congress on disaster assistance.	◐	◐

● Addressed (initial or ongoing) or deadline met

◐ Partially addressed or some deadlines met

○ Not addressed or missed deadline

N/A Not applicable because no action is needed to be taken by SBA at this time, due to provisions' discretionary nature.

Source: GAO analysis of the Act and SBA documents.

Note: The Act explicitly establishes appropriation requirements for procurements related to a major disaster for the provision in bold.

<sup>a</sup>The Act requires SBA to issue regulations for these provisions.

<sup>b</sup>SBA has not yet issued an updated DRP.



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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

William B. Shear, Director, (202) 512-8678, or [shearw@gao.gov](mailto:shearw@gao.gov).

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## Staff Acknowledgments

In addition to the individual named above, Kay Kuhlman, Assistant Director; Michelle Bowsky; William Chatlos; Beth Ann Faraguna; Alexandra Martin-Arseneau; Marc Molino; Linda Rego; and Barbara Roesmann made significant contributions to this report.

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