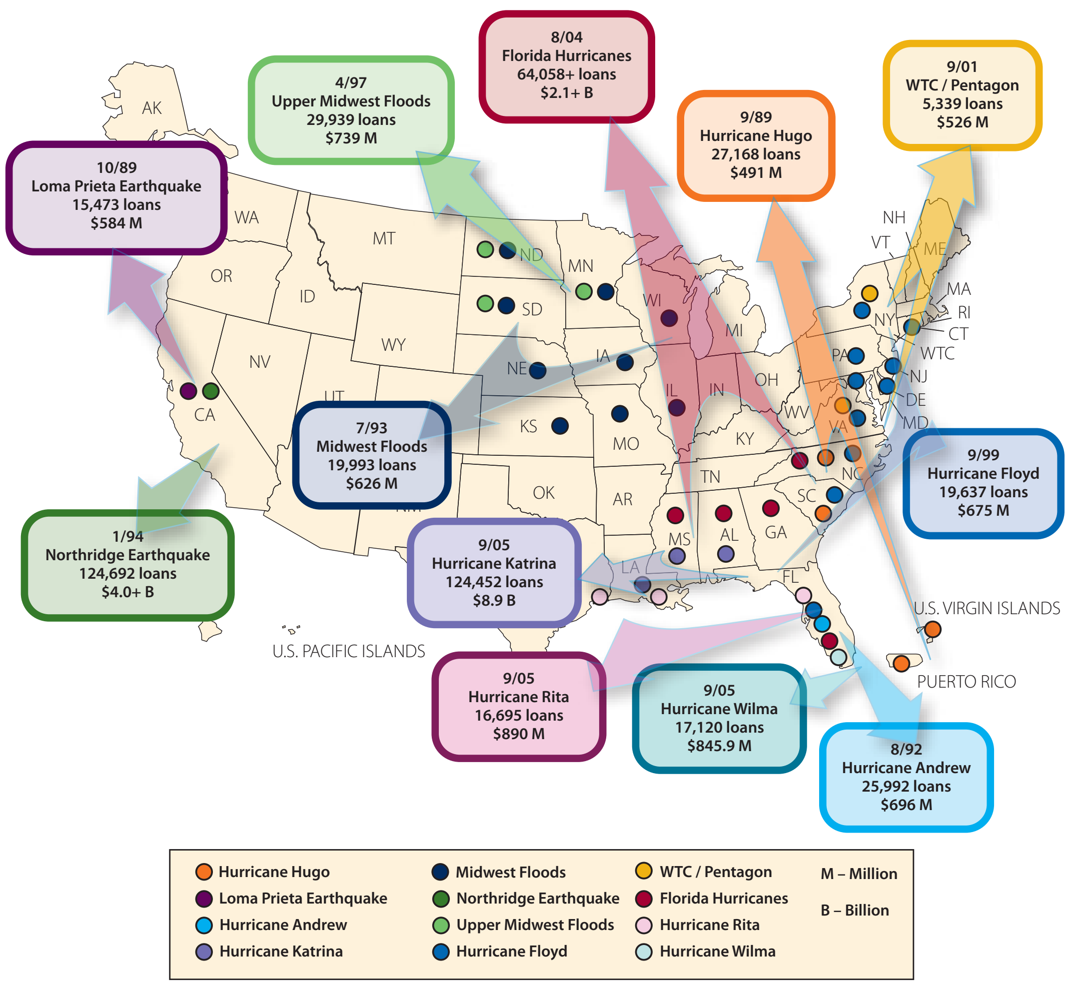
STRATEGIC GOAL 3

Restore homes and businesses affected by disaster

By their nature, disasters inflict widespread destruction and distress—on families, businesses and communities. Disasters are unpredictable, but they are not unexpected. They are, unfortunately, all too frequent occurrences. To assist victims of physical disasters, the SBA operates a direct loan program and supports the servicing and collection of these loans after they have been made. The focus of the Agency is expressed by one long-term objective, similarly worded to the strategic goal.

LTO 3.1 – Restore homes and businesses affected by disaster

The disaster loan program is the only form of SBA assistance that is not limited to small businesses. Disaster loans help homeowners, renters, businesses of all sizes and nonprofit organizations to fund rebuilding and recovery efforts. Small businesses, in particular, are helped by a stronger customer base and revitalized communities. Communities that have been devastated by disasters lack the customer base necessary for small businesses to become functional again. By providing integrated assistance, the SBA increases the effectiveness of this federal assistance. The map below shows the SBA's disaster lending from 1989 until present by major disaster.



The SBA offers two types of disaster loans to respond to the long-term recovery needs of disaster victims: 1) physical disaster loans, which provide funds to repair or replace disaster-damaged uninsured or underinsured real and personal property belonging to homeowners, renters, businesses of all sizes, and nonprofit organizations; and 2) economic injury disaster loans, which provide necessary working capital to small businesses adversely impacted by the declared disaster until normal operations can be resumed.

In a Presidential disaster declaration, individuals who are homeowners or renters register first with the Federal Emergency Management Agency (FEMA). FEMA will refer qualified individuals to the SBA. Businesses may apply directly to the SBA for disaster assistance. SBA disaster loans have lower interest rates and longer terms than conventional lending offers. The disaster loans are a critical source of economic stimulation in disaster-ravaged communities and help generate employment and stabilize tax bases by protecting jobs.

The 2005 Gulf Coast hurricanes created a big challenge for the SBA — to deliver assistance at the customer service level that is the Agency's benchmark. The magnitude of the disaster resulted in a backlog of applications to be processed and delayed assistance to the disaster victims. The following section reviews the main challenges and the actions taken by the Agency to improve its performance. It also describes the changes that the SBA has or will implement to improve its surge capacity.

Hurricanes Katrina and Rita devastated far more residential property than had any other recent hurricane, completely destroying or making uninhabitable an estimated 300,000 homes. Photo courtesy of FEMA/Mark Wolfe.

FY 2006 Program Performance and Costs to Achieve Results

In the summer and fall of 2005, Hurricanes Katrina, Rita and Wilma destroyed portions of Alabama, Florida, Louisiana, Mississippi and Texas. These storms wreaked devastation on homes and businesses and collectively represent the worst natural disaster in American history. As measured by barometric pressure, Katrina was more intense than Hurricane Andrew. Barometric pressure is the most accurate representation of a storm's power. The lower the barometric pressure, the more intense the storm.

Figure 20.

Most intense U.S. hurricanes at landfall

Hurricane	Year	Barometric pressure (inches)	Wind speed (mph)
"Labor Day" (Fla. Keys)	1935	26.35	160
Camille	1969	26.84	190
Katrina	2005	27.11	140
Andrew	1992	27.23	165

As Figure 21 illustrates, the magnitude of the Gulf Coast hurricanes caused over 420,000 applicants to seek SBA's assistance. The SBA responded by approving $10.6 billion in loans to those affected. By comparison, 181,751 applications were processed in FY 2005, and $1.8 billion in loans were approved for the 2004 Florida hurricanes. Put into context, over 20% of all disaster loan dollars approved in the 53-year history of the SBA occurred in FY 2006. Figure 21 illustrates how the Gulf Coast hurricanes represent the largest collection of disasters the Agency has ever faced.

Figure 21.

SBA Assistance to Four Largest Disasters

Event	Applicants	Dollar Amount Approved
Gulf Coast Hurricanes (2005)	422,253	$10.6 Billion
Northridge, California Earthquake (1994)	250,402	$4.0 Billion
Florida Hurricanes (2004)	181,751	$1.8 Billion
Hurricane Andrew (1992)	45,727	$7 Million

The Agency also received loan applications from other disasters that occurred during FY 2006, resulting in a combined total of over 440,000 applicants and $11.2 billion in loans approved for the year.

The method SBA uses to forecast activity expected from declared disasters did not account for a disaster of the magnitude of Katrina. The prior benchmark for natural disasters was the Northridge, California, earthquake of 1994 which accounted for $4.0 billion in loans. The 2005 hurricanes resulted in $10.6 billion in approved loans, nearly three times higher. To better forecast the impact of a disaster, the Agency has developed a new model that enhances its capability to immediately forecast loan volume. This new model provides a more robust methodology for predicting loan volume based on assets at risk and disaster characteristics. It will be tested for accuracy during FY 2007 and will enable the SBA to better predict its resource needs.

The SBA also developed a model to forecast the staffing requirements, related logistics, and administrative costs based on loan application volume. These two new tools will put SBA in a much better position to respond to future catastrophic natural disasters.

The SBA measures the success of its disaster assistance according to the outputs at the program level as shown in the performance statement Table 30 and according to the agency-level outcomes in Table 3 on page 35.

Table 30.

Performance Statement Program Level Assistance Strategic Goal 3. Restore Homes and Businesses Affected by Disaster.								
LTO	Disaster Key Performance Indicators	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal[a]	FY 2006 Actual	FY 2006 % Goal Variance
3.1	Applications Processed (Number)	Output	102,278	104,518	153,072	N/A	441,631	N/A
3.1	Original Loans Approved (Number)	Output	25,856	28,510	62,075	N/A	169,992	N/A
3.1	Loans Funded (Number)	Output	21,170	22,264	41,651	N/A	137,803	N/A
3.1	Value of Loans Approved ($ Millions)	Output	$885	$884	$2,279	N/A	$11,627	N/A
3.1	Percentage of Disasters Having Field Presence Within 3 Days (%)	Output	100%	100%	100%	N/A	100%	N/A
3.1	Percentage of Loans With Initial Disbursements Within 5 Days of Loan Closing (%)	Output	99%	99%	97%	95%	55%	-42% R
3.1	Time To Process 85% of Home Applications (Days)	Output	N/A	11	25	14	74	-429% R
3.1	Time To Process 85% of Business Physical Applications (Days)	Output	N/A	14	35	18	66	-267% R
3.1	Time to Process 85% of EIDL Applications (Days)	Output	N/A	13	24	18	29	-61% R
3.1	Percent of ODA Staff Trained Related to Hazard Mitigation. (%)	Output	N/A	100%	100%	100%	100%	0% G
3.1	Loans Containing Disaster Prevention Measures	Output	N/A	230	545	295	337	14% B

Disaster Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Program ($000)	$270,378	$208,401	$424,748	$1,163,367	$1,793,166
Disaster Loan Approving ($000)	$236,640	$182,917	$393,957	$1,118,201	$1,766,355
Disaster Loan Servicing ($000)	$33,737	$25,484	$30,792	$45,167	$26,811

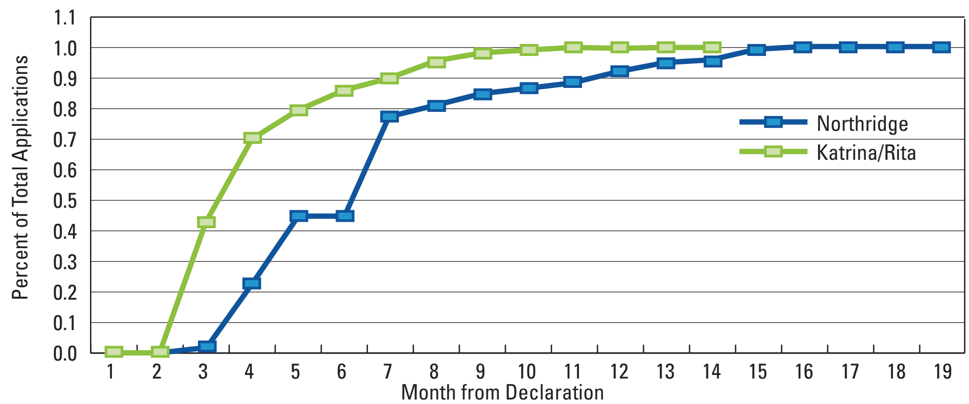
Disaster Efficiency Measures	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Per Application Processed ($)	$2,644	$1,994	$2,775	N/A	$4,000
Per Loan Funded ($)	$11,178	$8,216	$9,459	N/A	$12,818

[a] Since disasters cannot be anticipated, goals cannot be set for some of these indicators.

The Agency fell short of its targets for the level of assistance to businesses and homes that sustained physical or economic damage during FY 2006. This shortfall can be attributed to several factors, the greatest of which is the widespread and unprecedented damage that was inflicted by the hurricanes of 2005. Katrina's damage was not only extraordinarily extensive, its effects became evident almost instantaneously, mostly due to the breaking of the Louisiana levees. These conditions resulted in the unprecedented rate of loan applications. The previous benchmark – the Northridge earthquake — produced over 250,000 applications, but those applications were spread over a longer period. Figure 22 shows the rate at which SBA received applications. Close to 50% of the applications were received in three months for Katrina, while it took six months for Northridge. One hundred percent of the Katrina applications had been received 10 months after the declaration. Comparatively, it took Northridge applications 15 months to reach the same point.

Figure 22.

Application Rate Comparison
Northridge Earthquake vs. Hurricanes Katrina & Rita

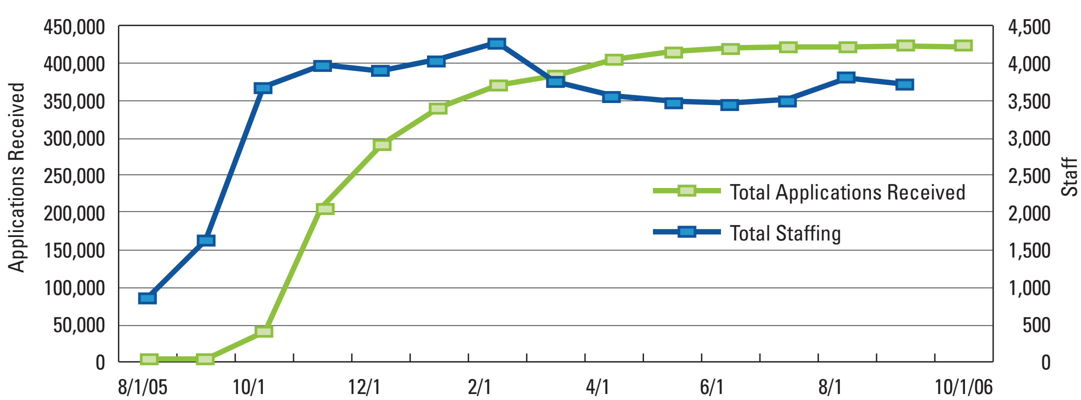


The SBA maintained its strong record of being on site within three days in 100% of the cases. The Agency coordinated with FEMA and the states on the opening of disaster recovery centers. However, the SBA did not have sufficient personnel, space and capacity in place to process applications within its previous timeframe, 85% of received applications processed within 14 days.

The SBA maintains a cadre of disaster loan processors that gives it a basic capability for responding to disasters. Once a disaster occurs, it counts on its surge capability to be able to match the intensity of the disaster's damage.

Figure 23.

2005 Hurricanes Katrina, Rita, and Wilma
Loan Applications and Staffing Timeline



On August 1, 2005, the SBA Disaster program had approximately 880 employees on board. One month after Hurricane Katrina's landfall, the Agency had increased the Office of Disaster Assistance staffing by more than 160% to 1,522 personnel. In another month, this number had increased again, to 3,650 active personnel. And by December 1, the number had increased to almost 4000 active disaster personnel. The Agency had already received close to 40,000 applications more than in its previously largest disaster, the Northridge earthquake of 1994. The SBA had to compete with FEMA and insurance companies for qualified personnel, which limited the number that could be hired.

New personnel had to be trained — it takes about 30 days for new staff to become fully productive — and office space had to be located and equipped. The space requirements for such a large number of employees created additional logistical challenges. In 30 to 60 days, the Agency secured more than 400,000 square feet of space in multiple locations, utilizing satellite offices across the country. Maintaining this level of additional space permanently would significantly increase the cost of preparedness.

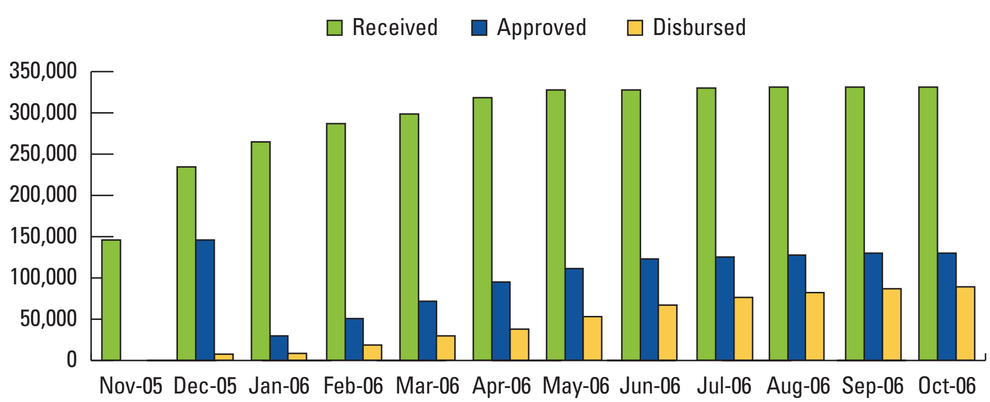
To deal with the number of applications being processed, the SBA implemented two working shifts in October 2006. The Agency also utilized its nationwide district office infrastructure to assist with disaster loan processing and closing. Even so, it took 74 days to process 85% of the home applications, two months longer than the goal. Further, only 55% of the closed loans had an initial disbursement within five days of closing, missing the goal of 95%. This backlog in the processing and disbursement of loans was not consistent with the level of customer service that the SBA expects to provide to disaster victims. Figure 24 shows the timeline for the reception of the loan applications, their approval and subsequent full disbursement.[44]

FY 2006 ACTIVITY CUSTOMER SERVICE CENTER BUFFALO, NEW YORK 9/05 – 9/06

- Number of calls responded to: 1,701,814
- Number of emails answered: 17,388
- Number of applications mailed: 43,758

Figure 24.

2005 Hurricanes Katrina & Rita



44 Loans over $10,000 have to be secured. The SBA won't decline a loan just because the applicant does not have enough collateral, but it does ask for whatever collateral is available. Usually, the security consists of a first or second mortgage on the damaged real estate. After the loan is approved, the applicant is told what documents are needed to close the loan. The money is disbursed in installments as it is needed to repair the damage or replace the property.

One of the reasons for the slower pace of the application processing was the capacity of the SBA's Disaster Credit Management System (DCMS). The implementation of DCMS in November 2004 moved the Agency toward a faster paperless processing environment by automating many of the functions previously performed manually. However, the system did not have sufficient capacity to handle the number of concurrent users required of a disaster of this magnitude, resulting in down-time and slow response times. DCMS was designed to handle 1,500 to 2,000 concurrent users. The double shift of processing employees was necessary to reduce the load on the system. The system was upgraded in June 2006 to support at least 8,000 concurrent users. This is a four-fold increase in capacity over peak usage during the response to the Gulf Coast hurricanes. In agreement with a recommendation from the GAO, further efforts to enhance productivity and overall system capacity are on-going. The SBA will continue to enhance the DCMS software and hardware components to further optimize performance and capabilities, and will perform additional stress testing as necessary to assess the impact of these changes to the new baseline. The utilization of catastrophe risk models and disaster simulations is being considered as part of the disaster planning process, and, to the extent these processes are useful, the SBA will incorporate best practices.

Figure 25 shows that hurricanes Katrina and Rita alone created an influx of 335,521 applications. A person requesting assistance typically registers first with FEMA, and then may be referred to the SBA. Twenty percent of those applications were initially evaluated and did not receive further processing. Applications that are not further processed by the SBA are returned to FEMA. An OIG audit found inconsistencies in the records between FEMA's system and SBA's DCMS due in part to the unstable transfer of data between the two systems.

In addition, the OIG and the GAO have recommended that SBA and FEMA reconsider procedures regarding automatic submission of disaster loan applications to DCMS. For example, FEMA forwarded loan applications to the SBA for applicants with zero income or with the pre-disaster income field left blank, therefore increasing the volume of ineligible referrals to the SBA. The increased application volume from ineligible persons delayed responses to those applicants who actually were qualified for the program. The OIG recommended that the SBA work with FEMA to improve the interface and formalize the error resolution process between the two systems. The SBA has provided FEMA with details relative to the issues causing the problems with the data exchange and understands that improvements in the process will be evaluated within FEMA's prioritization process.

Figure 25 also shows that 39% of the Katrina- and Rita-related applications were approved. It is important to distinguish between those loans that are approved and those that are funded. Many loans are cancelled before the first disbursement for a variety of reasons including: the borrower obtained sufficient insurance and/or grant monies to complete the project without SBA funding, or the borrower decided not to incur additional debt. Therefore, the only loans that can be disbursed are those loans that have been approved but not cancelled. Figure 25 shows that, of the loans approved and funded to victims of Katrina or Rita, 44% had been disbursed by the end of the fiscal year.

Photo courtesy of FEMA/Mark Wolfe.

It is also valuable to assess results in terms of the level of the damage in the impacted areas. Loans to applicants in Mississippi were fully disbursed at a faster rate than in Louisiana. The damage sustained by Louisiana residents was significantly greater than that in Mississippi. In and around New Orleans nearly 650,000 people lived in areas that were heavily damaged. In Mississippi, damage was extensive on the coast where the area's casino gaming operations were affected and caused significant loss of jobs. In contrast to New Orleans, however, the number of Mississippi residents in areas of moderate or greater damage was only about 50,000.[45] The rate of loan disbursement in Mississippi compared to Louisiana is consistent with the level of damage being a factor in the percentage of funded dollars that are fully disbursed. The results of a comparison of the monthly percentages of the total disbursement – as of September 2006 — for Louisiana and Mississippi are shown in Figure 26 below.

Figure 25.

FY 2005-2006 Disaster Loans
Hurricanes Katrina & Rita

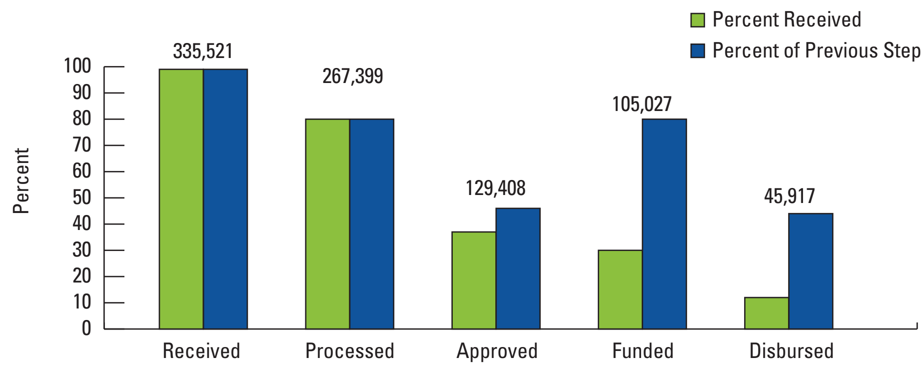
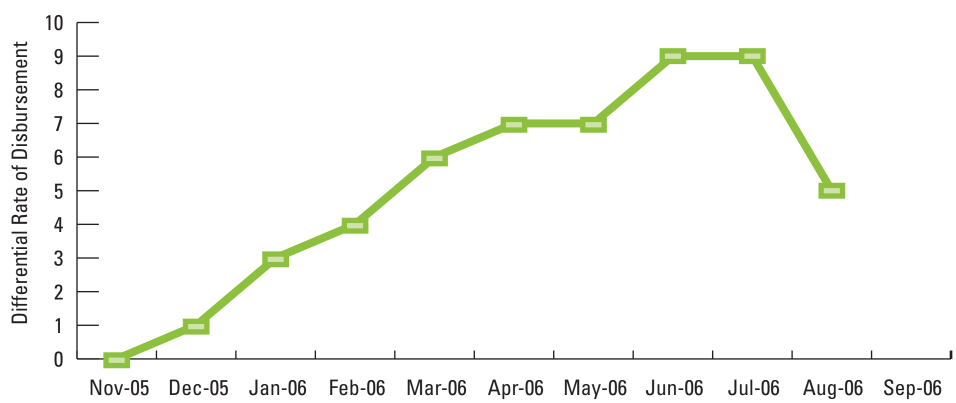


Figure 26.

Disaster Loans
Rate of Dollar Disbursement
Mississippi vs. Louisiana



From December 2005 to June 2006 the monthly percentage of total disbursed dollars in Mississippi was higher than in Louisiana. Although the rate of disbursal increased in both states, the rate in Mississippi accelerated at a faster pace. In June 2006 the difference between Mississippi and Louisiana reached nine percent before leveling off and starting to decline.

45 Logan, John R., Hurricane Katrina Project, *The Impact of Katrina: Race and Class in Storm-Damaged Neighborhoods*, Brown University, January 2006, page 14.

In an effort to provide better customer service, the SBA began a new approach, as of September 2006, to increase the disbursement rate of approved disaster loans by using a "one loan, one team" approach and by accelerating the contact with all recipients of approved but undisbursed disaster loans. Each loan is assigned a case manager and a processing team that is held accountable for the handling and resolution of the loan. The disaster victim only deals with one person from beginning to end, which makes for a more efficient and effective interaction. This initiative resulted in the weekly number of loans disbursed more than doubling by late October. By November 12, the number of loans approved but not fully disbursed had been reduced from 90,000 to 40,000, a 55% reduction. Many borrowers have not yet received a portion or all of their funds, because they are have not completed or have not even begun the rebuilding process. As a result, it is critical that the Agency have processes in place that enable a rapid disbursement of funds when the borrowers' needs occur.

The SBA will continue assessing and implementing changes to respond quickly to victims of disasters. It will keep improving its customer service, including revised process flows for applications, providing a secure Internet-based application feature for home and business disaster loan applicants, and streamlining filing requirements for applicants whose personal and business records were destroyed.

Goals Exceeded

Indicator: Loans containing disaster prevention measures (number)		
Target	**Result**	**Over Target by**
295	337	14%
Reasons for performance result		
The number of loans approved for 2004 and 2005 exceeded "normal".		
Steps being taken to improve performance or targets		
N/A		
Impact of result		
N/A		

Indicator: Percentage of businesses sustaining economic injury that remain operational 6 months after final disbursement.		
Target	**Result**	**Over Target by**
60%	86%	11.7%

Indicator: Percentage of businesses sustaining physical damage restored within 6 months after final disbursement.		
Target	**Result**	**Over Target by**
60%	74%	23.3%
Reasons for performance result		
Survey consisted mostly of 2004 hurricane victims. Current survey does not provide information about the reasons.		
Steps being taken to improve performance or targets		
The SBA will reevaluate the survey that generates the values for these outcomes		
Impact of result		
The FY 2006 outcomes reflect the effect of the SBA's assistance to victims of FY 2004 disasters. Those victims received assistance during FY 2005, and the survey that measured the SBA's impact was conducted in FY 2006. Consequently, the FY 2006 results should be interpreted together with the outputs for FY 2005. The complete survey results will be published toward the end of calendar year 2006 by the American Customer Satisfaction Index organization.		

SUCCESS STORY

Entrepreneur Counts on SBA to Begin and to Recover

Rick Ly has been in business all his life. His parents migrated from Vietnam to South Mississippi in 1981 and started the Hong Kong Supermarket in 1982. He began his own business in 1999 with a SBA 504 loan obtained through the Southern Development District. “At that time, the hotel industry wasn’t that hot, so lenders were gun shy at financing 70% or more of the value of the hotel,” he said. “But with the SBA 504 program, the lender shared the risk and they were more willing to take on the project.”

His hard work paid off and he managed to double the hotel’s revenue in just a few years. “We were acknowledged as the number one hotel of that chain in the nation based on occupancy growth,” he said. “We’ve had the highest occupancy for a small hotel chain on the Gulf Coast for the last eight years.” Using the SBA 504 loan program, he purchased another hotel property. Again, his golden touch proved itself as he managed to triple the income of his new property; all done while under renovation

Then, Hurricane Katrina struck. Rick Ly recalls the seven hour drive from Atlanta on Tuesday morning, August 30, 2005. He, his wife, and several employees had left a friend’s house at 2 a.m. to check on the level of damage done by Katrina. “Many of the roads were inaccessible and others had been blocked off by the military, yet we managed to get through,” he said.

His hotel property, located 23 feet above sea level, had taken almost five feet of water. Katrina was equally unkind to his other hotel property and his home, both getting close to ten feet of water. “It was an unbelievable sight,” he said. “The kitchen, computers, laundry room, electrical and telephone room, everything on the first floor was lost. I didn’t have flood insurance on either property because it wasn’t required.”

He immediately went to work rebuilding, taking nearly three months to get things together enough for power to be restored on the hotel’s second floor. That effort saved the building from the destructive mold that had quickly spread throughout.

In the meantime, he pursued and was approved for a $1.5 million SBA disaster loan. “SBA’s disaster loan really helped us,” he said. He used the loan to recover the majority of the items damaged. “Elevators were $101,000 apiece!” he recalls. “The cost of everything had doubled, … manpower, wages, everything. We had to do what we could to open and SBA helped tremendously.”

Ly reopened on November 24, 2005, operating with about 20 people and about 80% of the renovations complete. “I’ve dragged a few of my siblings into the hotel business with me,” he laughed.

Goals Not Met

Indicator: Percentage of loans with initial disbursements within 5 days of loan closing (%)		
Target	**Result**	**Below Target by**
95%	55%	-42%
Indicator: Time to process 85% of home applications (days)		
Target	**Result**	**Below Target by**
14	74	-429%
Indicator: Time to process 85% of business physical applications (days)		
Target	**Result**	**Below Target by**
18	66	-267%
Indicator: Time to process 85% of EIDL applications (days)		
Target	**Result**	**Below Target by**
18	29	-61%

Reasons for performance result

This shortfall can be attributed to several factors, the greatest of which is the widespread and unprecedented damage that was inflicted by the hurricanes of 2005. Additionally:

- The disaster model did not forecast correctly the volume of loan applications
- The DCMS system did not have sufficient capacity, resulting in down-time and slow response times.
- The level of the local damage in the impacted areas
- Unstable transfer of data between FEMA and SBA.
- SBA had to compete with FEMA and insurance companies for qualified personnel, which limited the number that could be hired.
- Steps being taken to improve performance or targets
- The SBA has developed a new model that enhances its capability to immediately forecast loan volume.
- The DCMS system was upgraded to support at least 8,000 concurrent users. Further efforts to enhance productivity and overall system capacity are on-going.
- The SBA understands that improvements in the data exchange process will be evaluated within FEMA's prioritization process.
- To increase the disbursement rate of approved disaster loans by using a one loan, one team approach and by accelerating the contact with all recipients of approved but undisbursed disaster loans.

Impact of result

It resulted in a backlog in the processing and disbursement of the loan applications. The application processing backlog delayed the disaster victim's ability to receive disaster assistance. The delays in disbursing the disaster loans impacted the disaster victims ability to recover from the disaster.

Indicator: Percentage of homeowners restoring their homes within 6 months of final disbursement		
Target	**Result**	**Below Target by**
77%	61%	-20.8%
Indicator: Percentage of renters restored within 6 months after final disbursement.		
Target	**Result**	**Below Target by**
295	337	-22.6%

Reasons for performance result

Survey consisted mostly of 2004 hurricane victims. Current survey does not provides information about the reasons.

Steps being taken to improve performance or targets

The SBA will reevaluate the survey that generates the values for these outcomes

Impact of result

The FY 2006 outcomes reflect the effect of the SBA's assistance to victims of FY 2004 disasters. Those victims received assistance during FY 2005, and the survey that measured the SBA's impact was conducted in FY 2006. Consequently, the FY 2006 results should be interpreted together with the outputs for FY 2005.
The complete survey results will be published toward the end of calendar year 2006 by the American Customer Satisfaction Index organization.

Indicator: Customer satisfaction rate		
Target	**Result**	**Below Target by**
71%	57%	-19.7%
Reasons for performance result		
Survey consisted mostly of 2004 hurricanes applicants. Applicants generally not satisfied with the application process. Takes too much time from beginning to end and is not customer friendly.		
Steps being taken to improve performance or targets		
Since the 2005 Katrina, Rita, and Wilma disasters, we have instituted a process to give borrowers one point of contact to help them understand and get through the process. Additionally, applications have been processed by teams to ensure rapid turn around times and to ensure that the applicants get a consistent message.		
Impact of result		
Applications are processed to a decision faster. Applicants have a better understanding of the next steps in the process and they have a consistent contact point for questions.