



OFFICE OF THE ADMINISTRATOR

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

August 26, 2015

The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Re: Response to the hearing *The Calm before the Storm: Oversight of SBA's Disaster Loan Program*

Dear Representative Velázquez:

The U.S. Small Business Administration's (SBA) role in providing disaster assistance for small businesses, homeowners and others impacted by natural and other disasters is one of the Agency's most important roles, and one I take very seriously. I believe we must do everything we can to aid local communities, businesses and individuals in their efforts to rebuild and recover after what are unexpected and devastating events. The SBA is committed to working with Congress, other Executive Branch Agencies and the private sector to improve our ability to help communities recover. Of course, access to capital is one of the essential ingredients to such efforts. As a follow up to the House Small Business Committee's hearing, *The Calm before the Storm: Oversight of SBA's Disaster Loan Program*, on July 8, 2015, in which Associate Administrator for the Office of Disaster Assistance James Rivera testified on behalf of SBA, I wanted to share with you a few of our recent efforts to improve our processes and address some of the concerns raised during the hearing.

SBA's Disaster Assistance Program faced significant tests in responding to Hurricanes Katrina, Rita and Wilma in 2005 and Superstorm Sandy in 2012. Both the intensity and size of these major storms presented challenges and provided a number of lessons learned for SBA. Since that time, SBA's Office of Disaster Assistance (ODA) has worked to update its processes in significant ways in order to improve performance. ODA has automated significant portions of its application, processing and disbursement processes. Additionally, it has created separate tracks to process home and business loans to ensure that experts address each type of loan most effectively and efficiently. The SBA also recently completed an extensive revision to its Standard Operating Procedure, which included several changes that streamline documentation requirements for applicants and borrowers. While significant progress has been made, we continue to identify efficiencies and refine our capabilities to meet the future demands of big disasters.

I understand that one of the primary concerns raised at the hearing involved the Immediate Disaster Assistance Program (IDAP), as well as the Private Disaster Assistance Program (PDAP) and the Expedited Disaster Assistance Program (EDAP). While the goal of having the private sector play an integral role in providing capital immediately after disasters is a laudable one, the inherent risk and cost of making such loans make the business proposition extremely difficult for the lending community. The challenge for these programs, as with all of our guaranteed loan programs, is that we must have willing partners to participate and make the loans. Based on universal feedback we have received through both formal and informal channels on IDAP, the current terms of the Program are not sufficiently appealing to engage potential bank participants. I am prepared to work with this Committee to find legislative solutions to this issue and am pleased to announce that SBA intends to gather additional feedback on all three of these guaranteed disaster loan programs from lenders and other stakeholders through the formal notice and comment process. The SBA plans to publish an Advanced Notice of Proposed Rulemaking (ANPRM) in order to formally solicit information from potential participants on what program terms would be required to make these programs palatable to lenders. The SBA will use this information to inform potential revisions to the IDAP regulations and to draft proposed regulations for EDAP and PDAP. Public comments may also be useful as we continue to discuss with leaders in Congress any potential legislative changes to the programs that might be required to improve their viability. I look forward to sharing that feedback with the Committee.

I will also note that due to the obstacles of accessing capital from the private sector immediately after a disaster, it is imperative that SBA's direct disaster loan program be as efficient and agile as possible. I believe the changes we have implemented post-Superstorm Sandy will improve the Agency's processing times during the next big disaster and allow us to be more responsive to disaster survivors. We are committed to serving disaster survivors as speedily as possible, while maintaining the necessary controls to ensure that all public resources are used properly.

As for IDAP, I would like to share information regarding the regulations that were promulgated on the Program, and also detail some of the steps SBA has already taken to better understand the hesitation on the part of our lending partners.

On October 1, 2010, SBA published an interim final rule implementing IDAP. The rule established that SBA would provide an 85 percent guarantee on IDAP loans of up to \$25,000 made by participating lenders. The rule was open for public comment until November 30, 2010. No comments were received. In addition to the regulations, SBA drafted forms and procedural guidelines for the program and made systems changes to allow the electronic loan processing systems for the disaster loan and 7(a) Guaranteed Loan Programs to interface.

The SBA conducted an October 2014 evaluation of IDAP with 23 stakeholders, including bank lenders, Certified Development Companies, and Lender Service Providers, at the annual conference of the National Association of Government Guaranteed Lenders (NAGGL). At this meeting, participants provided comments and feedback on several IDAP components, as well as other regulatory and policy features of the program. The main topics of concern addressed by the lenders included:

1. The statutory requirement for lenders to provide a minimum 10 year repayment term on any IDAP loan that could not be repaid from an approved SBA disaster loan;
2. The maximum interest rate an IDAP Lender may charge an IDAP Borrower, currently set at PRIME plus one percentage point, as published in the Federal Register; and,
3. The regulatory cap on lender-imposed application fees of \$250.

The participants were unanimous in their objection to the statutory requirement of a minimum 10-year “term-out” of any IDAP loan that could not be repaid from an approved SBA disaster loan. The participants also universally responded that lenders use interest rates and loan fees to offset the risk of loans made immediately following a large disaster and that, without the ability to charge for this risk, lenders would remain highly resistant to offering this loan product. Despite lenders’ hesitation to participate in this particular loan program, the majority of lenders also strongly expressed their desire to ensure small businesses have access to needed credit in the aftermath of a disaster.

I would welcome any feedback you receive from lenders and I would be happy to help facilitate further discussions with the lending community on how we can better serve our disaster survivors. Thank you for your strong support of SBA’s disaster operations and your continued leadership in making our country better equipped to deal with natural and other disasters. If you have any other questions or concerns, please do not hesitate to contact me directly, or have your staff contact Thaddeus Inge, SBA Associate Administrator for Congressional and Legislative Affairs, at (202) 205-6634.

Respectfully,

Maria Contreras-Sweet

