

News Release

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Contact: Christine Mangi (202) 205-6948

Internet Address: <http://www.sba.gov/news>

Background on SBA's Efforts to Reduce Loan Backlog Post-Hurricane Katrina

WASHINGTON, DC — Like government at every level, the U.S. Small Business Administration was overwhelmed by the Gulf Coast hurricanes of 2005. The agency received 422,729 loan applications, of which 364,000 were for homes and more than 58,000 were for businesses.

Within months of Steve Preston's confirmation as head of SBA last summer, Disaster Assistance was reorganized to impressive results: Through the *Accelerated Disaster Response Initiative* (ADRI), SBA reduced the backlog of approved loans in the system from 120,000 in the summer to under 28,000 by year end. Of those 28,000, all but 4,000 had received at least some of their disaster loan money. Today, \$5.9 billion of \$6.9 billion in approved SBA disaster loans is at work helping 118,000 Gulf families rebuild their lives, businesses and communities.

The ADRI required thousands of man-hours to fully re-engineer the process to eliminate backlogs, dramatically reduce response time, and improve support to disaster victims throughout the process. Individual case managers were assigned to every borrower to help them navigate the process. SBA assigned staff to work in clerks' offices in Louisiana to help borrowers find needed documents.

SBA's Office of the Inspector General (OIG) is a strong partner in SBA's efforts to strengthen its disaster assistance program. Over the past several months it has issued a series of reports helping SBA identify actual or potential problem areas. SBA has already incorporated many OIG recommendations in its new *Disaster Recovery Plan*, announced in June 2007, and is considering others.

For example, the OIG's investigation into SBA's Expedited Loan pilot program, which pre-dated the ADRI, identified as many as 21,000 potentially high-risk loans. SBA has replaced the program with one that better accounts for ability to repay and will focus on quickly referring such applicants to FEMA for possible grant assistance.

Similarly, a recent OIG report suggests the agency's Quality Assurance Review (QAR) team may be insufficiently independent from its Loss Verification team. The report indicates QAR certified the loss verifiers as 99.4 percent accurate, better than the standard of 98 percent, where the OIG audit suggests the actual accuracy rate was closer to 95 percent. SBA is committed to avoiding a conflict of interest in these cases and is investigating the report's findings.

Of course, SBA does not always agree with every auditor's recommendation. One OIG report criticized the agency for not 'perfecting liens' by securing all available collateral on disaster loans. Had SBA followed the recommendation, it would have delayed disbursements to qualified disaster victims for weeks or months, with little additional protection for the taxpayer.

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SBA proceeded with loans after receiving documents from title/escrow agents – standard industry procedure. Similarly, when borrowers purchased new property, SBA did not properly secure all property, including the damaged property on relocation loans and often proceeded disbursing a loan without perfecting liens on the old property, much of which was still flooded.

Additionally, in a draft report to be discussed during a July 25th Senate oversight hearing, the OIG suggests that SBA too-hastily cancelled some 7,700 approved loans. Through ADRI, SBA tried to personally contact all 94,000 borrowers who were still in the system in September. The report focuses on the “Loan Triage” effort within the ADRI to reach 28,367 borrowers with approved loans that SBA had not heard from in several months and could not be disbursed because the borrowers had not submitted loan documents.

SBA Standard Operating Procedure mandates that an individual has 60 days to submit loan closing documents once s/he is approved for a loan, otherwise the approval is cancelled. Because SBA wanted to help as many Gulf residents as possible, it did not automatically cancel these loans; instead, it doubled their deadline to 120 days.

Last September, 28,367 approved disaster-assistance loans over 120 days old could not proceed because the applicants had not submitted closing documents.* Instead of cancelling the loans, SBA’s Buffalo Call Center was directed to contact every individual with an overdue loan application to determine how SBA could assist them. Individuals who wanted to proceed with their loans received a personal case manager to help them secure the needed documents.

Of the applicants contacted, 16,705 received extensions or other assistance; another 3,910 indicated they were no longer interested and their loans were cancelled at their request.

SBA was unable to reach 7,752 approved loan applicants. Letters were sent to them indicating their loan approvals were cancelled but that they had an additional 180 days to reinstate their loans by submitting closing documents. On April 7, 2007, SBA extended the deadline to reinstate by another 6 months. *This gave every approved borrower a total of at least 480 days to provide loan closing documents, eight times the normal window.*

Disaster Assistance managers directed the Buffalo Call Center to make another effort to reach the 7,752 loan applicants so they would not have to cancel loans without contacting the borrowers. Between September 30th and October 10th, callers were able to reach 4,569 applicants, of whom 1,195 requested that their loans be reinstated, and they were. Because of the extended deadlines, the 3,183 borrowers SBA never reached by phone, and any borrower who cancelled and wants to change his mind, can reinstate their loans anytime through September, 2007 – almost two years after Katrina.

To be clear: SBA’s policy was and is to help every qualified applicant who seeks disaster assistance get a loan. SBA strongly challenges any inference that managers arbitrarily cancelled loans in order to meet performance targets. In fact, as the OIG noted in an earlier report, the only financial incentive SBA provided to its disaster assistance teams was to disburse loans.

Agency staff has often worked around the clock to ensure Gulf survivors get assistance and are on track to rebuild their lives. SBA remains committed to improving its operations to bring about greater responsiveness and efficiency and to examine new ways in which we can better serve our customers.

* = Only two or three documents are needed for loan closing and an initial \$10,000 loan disbursement: promissory note; loan authorization or agreement, and flood insurance, if required by law.

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